

CURRENT HISTORY

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DECEMBER, 1985

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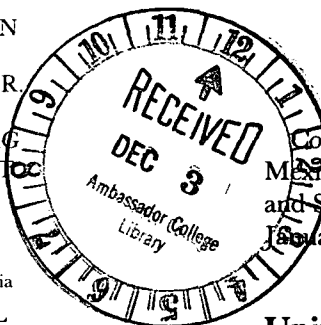
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January, 1986

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Current History

DECEMBER, 1985

VOL. 84, NO. 506

Relations between Japan and the United States have reached a new low because of trade frictions. This issue examines the trade dispute, Japan's economic strengths, its leadership in high technology, and the other factors that make Japan a major power. Our lead article points out that while "the foreign policy of the Nakasone government does not mark a sharp break with the past, it exhibits a vitality that was once absent. This activism, inspired by national confidence and a commitment to democratic principles, has reinforced the goals of American foreign policy."

Japan's Foreign Policy

BY MIKE MOCHIZUKI

Assistant Professor of Political Science, Yale University

A favorable international environment is critical to Japan's economic prosperity. Without access to foreign markets, technology and raw materials, Japan's economic miracle would have been impossible. Its security relationship with the United States has freed Japan from costly defense expenditures and has allowed the Japanese to concentrate their resources on industrial development.

Since the early 1970's, however, the world order that some call Pax Americana has been in decline. The oil crises demonstrated Japan's energy vulnerability, while economic success brought foreign resentment as well as admiration. Japan's most important market, the United States, became less open to Japanese goods as more Americans viewed Japan as an economic threat, not just an economic competitor.

On the security front, American military preeminence was challenged by the Soviet Union's attainment of nuclear parity with the United States and by its growing blue water navy. Declining American hegemony was forcing Japan out of its cocoon. Japan could no longer hide behind the American shield while reaping the benefits of world trade.

But what foreign policy should Japan pursue? Some Japanese argued that Japan should become a military power commensurate with its economic might and should pursue a foreign policy independent of the United States. Others tried to win support for the old idea of armed neutrality. Most Japanese found neither a viable choice. They believed that Japan should strengthen

¹Itsusei Kawaguchi, *Ohira seiken 554 nichi* (Tokyo: Gyosei Hondai Kenkyujo, 1982), pp. 126-135, 230-239.

the Western alliance, not abandon it. This would require only an extension of the foreign policy established by Prime Minister Yoshida Shigeru in the early 1950's. It entailed the fewest risks; it recognized that the United States was still the strongest world power despite its relative decline; and it affirmed Japan's commitment to liberal democracy.

Prime Minister Masayoshi Ohira first articulated this new position during his visit to Washington in May, 1979. His immediate predecessor, Takeo Fukuda, referred to Japanese foreign policy as "omnidirectional peace diplomacy." In sharp contrast, Ohira declared that Japan must actively fulfill its responsibilities as one of the Western nations and work with the United States as a good partner and ally to achieve common goals.¹ The 1981 communiqué between President Ronald Reagan and Prime Minister Zenko Suzuki incorporated Ohira's language by calling the United States-Japanese relationship an "alliance." Although the uproar in the Japanese press over the communiqué caused Suzuki to waver, the public evidently thought alliance was an accurate characterization of reality.

Prime Minister Yasuhiro Nakasone took the Ohira rhetoric one step further by talking about Japan's "common fate" with the United States and the West and Japan's role as an "unsinkable aircraft carrier." Americans might think these public statements are little more than symbolism, and not a change in substantive policy. For the Japanese, however, these phrases represent a subtle but significant transformation of the way they see their role in the world.

Nakasone has injected nationalist vigor into the no-

tions of burden-sharing and alliance responsibility. Although the public is still ambivalent about his views on defense, most Japanese like Nakasone's outspokenness and support his activist foreign policy. In fact, for an incumbent Prime Minister, Nakasone has maintained unusually high public support ratings in opinion polls; and the reason that most Japanese give for their support is his foreign policy stance.²

The Nakasone administration has moved on four fronts to expand Japan's international security role. First, Nakasone forged a government consensus to permit the export of military technology to the United States. A two-way exchange of defense technology between the United States and its allies was first pushed actively by the administration of President Jimmy Carter. Japanese opposition parties resisted the technology exchange policy by invoking Japan's policy of banning arms exports, while some bureaucrats feared that the United States would exploit the exchanges to raid Japanese high technology.

Arguing that the United States-Japan Security Treaty superseded the three principles prohibiting arms exports, Nakasone used the power of his office to overcome domestic opposition; in November, 1983, Japan signed a memorandum of understanding with the United States permitting defense technology transfers.

In June, 1985, the United States Defense Department used this agreement for the first time when it tried to purchase an "image-seeking" missile guidance system from Japan.³ It is still unclear whether military technology cooperation will expand into bilateral collaboration on the research and development of weapons systems. Nevertheless, the Japanese government continues to adhere strictly to its policy of forbidding arms exports.

Second, the Nakasone government has indirectly promoted collective security in parliamentary interpellations. The official interpretation of the constitution is that Japan has the right to self-defense but not to collective security, even though collective security is guaranteed in the United Nations charter. Statements by the Nakasone government in the National Diet, however, have stretched the meaning of self-defense to embrace certain aspects of collective security.

For example, in February, 1983, Nakasone noted that, if the United States Navy were operating to defend Japan, Japanese forces could in "self-defense" protect American naval vessels near Japan before a direct attack on Japanese territory. In April, 1984, the government declared that an attack on Japan alone is inconceivable as long as the United States-Japan Security Treaty is in force; it maintained that because of its geostrategic loca-

²*Yomiuri Shimbun*, August 29, 1985.

³Robert Manning, "Comrades in Arms," *Far Eastern Economic Review*, August 1, 1985, p. 35.

⁴*Yomiuri Shimbun*, April 26, 1984.

⁵Richard L. Sneider, *U.S.-Japanese Security Relations: A Historical Perspective* (New York: Columbia University, Occasional Papers of the East Asian Institute, 1982), pp. 81-89.

tion, Japan would inevitably become involved in a Soviet-American global conflict irrespective of the policy it pursues.⁴

Such statements legitimize collective security even though the administration has shied away from a frontal assault on the constitution. They reinforce the trend toward greater mutuality in the Pacific alliance, indicated by the adoption of the 1978 Guidelines for United States-Japan Defense Cooperation, the commencement of joint planning exercises in the Far East outside Japan, and Japanese participation in joint military training exercises.⁵

Nakasone's third defense initiative is his recent attempt to rescind the ceiling on defense spending of 1 percent of GNP (gross national product) imposed by Prime Minister Takeo Miki's Cabinet in 1976. The Japanese military budget, which in 1985 amounts to 0.997 percent of GNP stands at the brink of the barrier. Although a public opinion poll conducted by the Prime Minister's office in November, 1984, showed that over 70 percent of the Japanese public opposed an expansion of defense expenditures, in July, 1985, Nakasone announced his intention to abolish the ceiling. Other leaders in the ruling Liberal Democratic party took a much more cautious stance and argued that the government should avoid a direct confrontation with the opposition parties, because confrontation might lead to the Diet's dissolution.

By September, Nakasone had been forced to back down and to approve the Defense Agency's midterm estimate for 1986-1990 defense procurements without referring to the spending limit. This episode confirms the persistence of severe domestic political constraints on building up the military. Nevertheless, the issue is unlikely to go away. With the imminent increase in personnel costs, the defense budget may exceed the 1 percent barrier without a government decision. There is no doubt that Nakasone would like to settle this issue once and for all during his tenure. In the meantime, he will continue to increase military expenditures by 4 to 5 percent annually in real terms despite his commitment to overall fiscal austerity. This rate is higher than the NATO (North Atlantic Treaty Organization) objective of a 3 percent per year real increase.

Nuclear forces and arms control comprise the fourth area of security policy in which the government has been active. Three factors are behind this new concern: 1) Japan's direct strategic interest in Soviet-American arms control negotiations; 2) recognition that arms control serves as an instrument of "threat control" during periods of tension between the two superpowers; and 3) the need to soft-pedal the government's defense buildup for domestic political reasons by highlighting government efforts on the arms control and disarmament front.

At the 1983 Williamsburg Summit, Nakasone pressed for global limits on SS-20 intermediate-range nuclear missiles so the Soviet Union could not move its European SS-20's to East Asia as part of an arms control agreement.

on intermediate-range nuclear forces in Europe. Nakasone did not want to see Japanese interests sacrificed for the sake of nuclear arms control in Europe.

In June, 1984, at the Committee on Disarmament conference in Geneva, Foreign Minister Shintaro Abe unveiled a "step-by-step" plan to ban underground nuclear testing. He proposed to ban underground tests that could be identified by means of existing technology and to lower the threshold as verification techniques improved. Japan offered to provide its most advanced seismographic technologies for detecting underground nuclear explosions. Although some critics fear that the Japanese plan might jeopardize the achievement of a comprehensive test ban, the initiative demonstrated Japan's intention to become an active participant in international arms control forums.⁶

As for the future security policy agenda of the Nakasone administration, the most immediate issue is perhaps Japan's participation in the United States Strategic Defense Initiative (SDI) research program. The bilateral defense technology exchange agreement of 1983 provides the framework for Japanese involvement in the project. Given Japan's lead in many critical areas of high technology, Japanese participation will be more than a symbolic gesture.

In Diet deliberations, Nakasone has been generally supportive of SDI despite the sharp attacks from opposition parties. Nevertheless, a smaller percentage of Japanese (11 percent) support SDI than Americans (30 percent) and Europeans (between 20 and 25 percent), according to an April, 1985, Gallup-Yomiuri poll.⁷ Many Japanese believe that SDI will further advance the militarization of space. The Nakasone government will therefore move cautiously in order to avoid a major disruption of the parliamentary process. How the Europeans respond to the American overture will certainly influence both the timing and substance of Japan's decision.

DIPLOMACY

Nakasone's two basic diplomatic aims have been to strengthen Japanese solidarity with Western nations and to improve relations with the nations of the Asia-Pacific region.

The key to the first aim has been the development of warm ties with the Reagan administration. The convergence of strategic and ideological perspectives between Nakasone and Reagan and their personal friendship have created a reservoir of goodwill that has helped to manage bilateral economic tensions.

On the European front, the first ministerial-level conference between Japan and the European Community was convened in Brussels in May, 1984. In July, 1985, Nakasone toured Europe in an effort to defuse European complaints about Japanese trade practices and to im-

prove Japan's image in Europe. All this attests to greater Japanese awareness of the European side of trilateralism.

As for the Asia-Pacific region, Nakasone's major diplomatic success has been the improvement of relations with South Korea. Before he took office, Japanese relations with Korea had soured because of a two-year deadlock on negotiations regarding an economic aid package. Nakasone broke the impasse by visiting Seoul in early 1983 and agreeing to provide \$4-billion worth of assistance. This was the first time a Japanese Prime Minister officially visited Seoul. President Chun Doo Hwan reciprocated with a visit to Japan in September, 1984—the first for a Korean head of state. Although the diplomatic exchange did not clear away the economic tensions between the two nations or lay to rest Korean animosity toward Japan for its past imperialism, Japanese-Korean relations appear to be on better footing than ever before.

Political relations with China have not changed appreciably under Nakasone. Japan remains cautious about military cooperation with China and does not favor an explicit united front (Japan—the United States—China) strategy against the Soviet Union. Moreover, the Nakasone administration does not want the United States to help China develop an effective navy that could eventually threaten Japan. China has also expressed ambivalence about Japan's military buildup. In August, 1985, Beijing sharply criticized Nakasone's official visit to the Yasukuni Shrine (which honors Japan's war dead) as an action that would stimulate militarism.

Despite the holding pattern in political-military relations, Japan's economic ties with China have deepened. China became Japan's number two trading partner in the first half of 1985, and Japan now has a growing bilateral trade surplus because of a surge in Chinese imports of Japanese consumer goods. Management of the inevitable frictions that will result from this trade imbalance will be a top agenda item in Sino-Japanese relations.

The basic Japanese stance toward China is to support and reap the benefits of its economic modernization. Although Japan favors a developing China, it still fears a developed China.

CREATIVE DIPLOMACY

The greatest innovation in Japanese diplomacy during the last three years has been the effort at conflict mediation and resolution. Foreign Minister Abe has in fact made this one of the main aspects of what he calls "creative diplomacy."

Japan is the only major industrial nation that maintains friendly relations with both Iran and Iraq. Not only is Japan in a unique position to mediate in the Iran-Iraq war, but it has strategic reasons to do so, given the fact that Japan imports two-thirds of its oil from the Middle East through Persian Gulf ports. Furthermore, Japan has invested huge sums in a massive petrochemical plant in Iran, which is vulnerable to Iraqi attack. Since 1982, the Japanese have made diplomatic contacts with both coun-

⁶*Yomiuri Shimbum*, June 13, 1984.

⁷*Yomiuri Shimbum*, April 29, 1985.

tries at high levels to prevent the escalation of the war and to promote de-escalation.

These efforts have borne some fruit. Iran has softened its threats to close the Strait of Hormuz, and Iraq has shown some restraint in attacking shipping in the Gulf. Japan has been trying to secure Iranian and Iraqi pledges to permit free navigation. Although no major breakthrough appears imminent, Japanese diplomacy remains the primary outside force for mediation.

Regarding the Cambodia (Kampuchea) problem, in July, 1984, Japan presented a three-point proposal to support the Association of Southeast Asian Nations (ASEAN) efforts to solve the conflict. First, Japan is willing to bear some of the costs of the peacekeeping effort once safety zones are established with the partial withdrawal of Vietnamese troops from the Thai-Cambodian border; second, Japan will cooperate to facilitate the holding of free elections in Cambodia after the complete withdrawal of Vietnamese forces; and, third, Japan promises economic and technical assistance to Vietnam, Laos and Cambodia after the restoration of peace in Cambodia. Although Vietnam has not been receptive to the Japanese proposal, Japan remains the only nation offering concrete assistance to help realize the ASEAN solution to the Indochina conflict.

Both efforts at conflict mediation mark a significant departure from the postwar Japanese pattern of diplomatic passivity.

Since Soviet General Secretary Mikhail Gorbachev's rise to power, there have been a series of diplomatic overtures from the Soviet Union to improve relations with Japan. A Soviet-Japanese rapprochement that is not disadvantageous to Japan would clearly be a major political coup, but the Japanese government remains suspicious of the latest Soviet peace offensive. Officials suspect that Gorbachev wants access to Japanese high technology and would like to weaken the solidarity of the Western alliance.⁸ Moreover, the Soviet leverage over the Japanese has weakened significantly since the 1970's because the Japanese no longer feel an acute need for Siberian raw materials.

It is highly unlikely that a Soviet peace strategy will succeed unless the Soviet Union is willing to return the southern Kuril Islands claimed by the Japanese. And even in the improbable event that the Soviet leadership agrees to negotiate the territorial question, the Japanese will not accept an accommodation that would jeopardize the Western alliance. The Korean airline tragedy, the deployment of Soviet troops on the northern Kurils, and the dramatic increase in Soviet military activity near Japanese territory have reinforced Japanese distrust of the Soviet Union.

GLOBAL ECONOMY

The greatest challenge of Nakasone's foreign policy is in the area of foreign economic relations. Japan's huge

⁸*Yomiuri Shimbun*, September 14, 1985.

trade surplus with the United States coupled with an unprecedented United States current account deficit has fanned the flames of protectionism in the United States Congress. Nakasone has responded with dramatic public appeals to the Japanese to buy more imported goods and has initiated an "action program" involving sweeping tariff reductions, the elimination of nontariff trade barriers, the reform of government procurement practices, and financial and capital market liberalization. While these actions are bold by Japanese political standards, they are criticized by American policymakers as too little and too late.

Even if Japanese markets became completely open to foreign goods, the United States trade deficit with Japan is unlikely to decline significantly as long as the dollar remains strong. The strong dollar is in turn the result of the large American budget deficits caused in part by the dramatic increase in defense spending incurred by the Reagan administration. In short, the trade crisis and security are inextricably linked. The United States might decrease its budget deficit through tax increases and/or spending cuts (especially in defense), while Japan might expand domestic demand through tax cuts and budget expansion. But this kind of macroeconomic policy coordination is impossible politically on both sides of the Pacific. President Reagan has promised not to seek tax increases; Nakasone is committed to fiscal austerity. Consequently, Japanese capital outflows to the United States are likely to continue to help finance the American public debt and, indirectly, to underwrite America's military resurgence, while the bilateral trade balance remains strongly in Japan's favor.

On September 22, 1985, Japan joined the United States, Britain, France and West Germany in an effort to intervene in world financial markets to lower the value of the dollar. It remains to be seen whether such intervention in an era of massive international capital flows will effectively keep the dollar low enough to mitigate the current trade imbalances. In any case, this agreement among the "Group of Five" marks a significant step toward greater macroeconomic coordination.

If the United States Congress passes protectionist legislation, Japan may adopt export restraints on a grand scale to try to convince the United States to lift the trade restrictions. Japan may well accept protectionism without retaliation if its economic welfare does not deteriorate so dramatically that it weakens the ruling Liberal Democratic party. Nakasone, of course, wants to prevent strong protectionist measures from passing the Congress altogether, but he may be forced to abandon his goal of a balanced budget in order to do so.

Kiichi Miyazawa, one of the three leading candidates to succeed Nakasone, has been pushing an "asset dou-

(Continued on page 435)

Mike Mochizuki is completing a book on the Liberal Democratic party regime in Japan.

"Japanese officials must understand the very difficult position of the Reagan administration vis-à-vis Congress . . . instead of reacting emotionally and nationalistically."

Japanese-American Economic Relations in Crisis

BY HIDEO SATO

Professor of Political Science, University of Tsukuba, Japan

FORMER Foreign Minister Saburo Okita, who visited the United States in early March, 1985, as chairman of the Japanese government's advisory committee on external economic problems, was quoted as saying: "The sentiment in the United States is like that before the outbreak of a war."¹ A few weeks later, on March 28, the United States Senate voted 92 to 0 to pass a resolution calling for retaliation against Japan for its perceived failure to open domestic markets. This was followed five days later by a concurrent resolution in the House of Representatives, passed by a vote of 394 to 19, which also branded Japan as an unfair trading partner. Subsequently, in early April, the Senate Finance Committee approved legislation that would order the President to obtain elimination of Japanese unfair trade practices or offset their impact.

Since then, many other pieces of trade legislation have been submitted to the 99th Congress, either directly or indirectly aimed at Japan. Most notable is the so-called "Rostenkowski-Gephardt-Bentsen bill," introduced in mid-July by Dan Rostenkowski (D., Ill.), chairman of the House Ways and Means Committee, Representative Richard A. Gephardt (D., Mo.), and Senator Lloyd Bentsen (Texas), the ranking Democrat on the trade subcommittee. The bill would establish a 25 percent tax on all imports from countries that trade heavily with the United States and that sell 65 percent more in the United States market than they buy. Although the bill would affect imports from Taiwan, Brazil and South Korea as well as Japan, its real target seems to be Japan. There were 11 import surcharge bills introduced as of August, and 7 of them would make Japan a target.² Some 360 trade bills have already been introduced in the current Congress. Even outside Congress, Japan-bashing has

¹The Japan Times, March 14, 1985.

²Raymond J. Ahearn and Alfred Reifman, "U.S. Trade Policy: Congress Sends A Message" (Paper prepared for the Conference on Current Trade Issues sponsored by the National Bureau of Economic Research, Cambridge, MA, August 8, 1985), p. 29.

³Theodore H. White, "The Danger From Japan," *The New York Times Magazine*, July 28, 1985.

⁴For details, see I.M. Destler, Haruhiro Fukui, and Hideo Sato, *The Textile Wrangle: Conflict in Japanese-American Relations, 1969-1971* (Ithaca and London: Cornell University Press, 1979).

been rampant in the United States in 1985, symbolized by Theodore H. White's *New York Times Magazine* cover story called "The Danger from Japan," which suggested that United States General Douglas MacArthur could have prevented Japan from becoming a major economic force in the world by being less merciful and less generous during the American occupation (1945-1952) after World War II.³

How does one interpret this crisis in United States-Japanese economic relations? Is this crisis qualitatively different from earlier low points in the postwar bilateral relationship? Or is it simply another phase in recurring patterns of bilateral conflict? The current crisis between the world's two largest market economies appears to be substantively different from earlier crises.

In October, 1971, when Japanese officials were virtually forced to accept United States terms for restraining Japanese synthetic and woolen textile exports to the American market because the United States threatened to invoke the so-called "Trading with the Enemy Act," some of them said that the Japanese-American relationship was at its postwar nadir. The textile wrangle of 1969-1971 was indeed the worst of bilateral sectoral trade issues in the postwar period, entangled as it was with another sensitive bilateral issue, Okinawa reversion. Its nonresolution for nearly two and a half years undermined the overall bilateral relationship.⁴ But it was no more than a sectoral trade issue. As soon as Japan agreed to the terms of voluntary export restraint, the issue was resolved. Other not so mismanaged sectoral issues, like steel, color television, beef and citrus, and even automobiles, were also resolved the moment the two governments reached agreement, though some of these issues have tended to recur.

One might say that it was the mishandling of the auto export issue that triggered the congressional resolutions against Japan in the spring of 1985. It is true that auto trade was one of the important factors that led to the congressional actions. Congress was unhappy about President Ronald Reagan's decision in early March not to seek another extension of Japanese auto export restraint. Legislators were even more upset in late March when the Japanese government announced a continuation of the auto export restraint at about 25 percent above

the previous level, although the Japanese were trying to help American producers. But congressmen were also frustrated by the widely perceived lack of progress in the ongoing market-opening sector specific (MOSS) negotiations between the two governments, particularly with regard to telecommunications, which had an April 1 deadline.

All this occurred while there were signs of a slowdown in the United States economy and in the wake of the disclosure of an unprecedented United States global trade deficit of \$123 billion and a bilateral trade deficit with Japan of \$37 billion for 1984. Moreover, the untimely transfer of William Brock from the Office of United States Trade Representative to the Department of Labor in mid-March is said to have created a leadership vacuum in the trade-policy bureaucracy, which made it difficult for the Reagan administration to maintain a credible channel of communication with Congress at a crucial time.⁵

Indeed, the current economic crisis between Japan and the United States goes well beyond sectoral trade issues. The widening bilateral trade imbalance is occurring against the background of America's growing global trade deficit and an American perception of Japan as an "unfair" trading partner, with the former contributing to the latter. The United States runs a larger deficit with Japan than with any other country. Its trade deficit with Japan was \$18 billion in 1981, \$19 billion in 1982, \$22 billion in 1983, and \$37 billion in 1984. There was a sharp jump from 1983 to 1984. The U.S. Commerce Department has reported that the United States global trade deficit for the first six months of 1985 rose to \$69.3 billion, more than \$10 billion over the 1984 figure for the same period. The United States trade deficit with Japan reached the largest half-yearly level on record, \$24.2 billion.

If this trend continues, the United States trade deficit with Japan for 1985 will easily approach \$50 billion.⁶ This is occurring in spite of several rounds of market-opening negotiations that the United States government has conducted with Japan over the past few years and despite seven market liberalization packages announced by Japan since January, 1982. To the extent that the American perception of Japan as "unfair" is influenced by trade statistics, such a perception may not disappear unless the bilateral trade gap is substantially closed. Apart from trade statistics, the United States perception is influenced by other American perceptions and images, including a closed Japanese market and intransigent Japanese trade negotiators. Americans believe that the Japanese government and Japanese industry maintain too close a relationship, that Japanese exporters are willing to cut prices to promote exports, and that Japan is not carrying out international responsibilities commensurate

with its economic power. The fact that Japan represents an "alien" civilization that does not share the Judeo-Christian tradition may also make it easier for Americans to single out Japan as an "unfair" country with different ways of doing business.

In any case, the problem of trade imbalance and perceived "unfairness" is far harder to resolve than bilateral sectoral trade issues. Perceptions and beliefs cannot be changed overnight, and there is very little Japan can do in the short run to reduce the United States bilateral trade deficit, to say nothing of its global trade deficit, because the problem is largely a function of macroeconomic phenomena beyond Japan's control. This is one of the reasons why the current crisis in American-Japanese economic relations is new and different.

The summer of 1971 may have been a period somewhat akin to the current situation. Because of the United States policy of "benign neglect," the United States had a growing trade deficit with Japan and the world and a serious exchange-rate problem. Then, on August 15, United States President Richard Nixon announced his new economic policy, suspending the convertibility of the dollar into gold and imposing a temporary 10 percent surcharge on all imports. This announcement was a watershed event in United States-Japanese relations, throwing into question the basic structure of the postwar economic world, just as President Nixon's announcement to visit China a month earlier had shaken the world's political structure.

In both cases, Japan was the ally most affected and most shaken. But in 1971, the United States trade deficit was just beginning to become a problem, and there was no widespread perception of Japan as an "unfair" trading partner. More important, instead of repeating rhetorical attacks on Japan and other trading partners, the Nixon administration acted quickly. When the status quo was deemed unacceptable, the President was willing to take drastic macroeconomic and trade measures to correct the situation. Thus, the "crisis" ended almost as soon as it began.

MACROECONOMIC POLICY

The current crisis is exacerbated by the Reagan administration's lack of effective macroeconomic policy actions. According to a simple macroeconomic explanation of the United States trade deficit, the huge United States federal budget deficit helps induce high interest rate which, in turn, contribute to an overvalued dollar. The overvalued dollar makes foreign imports cheaper while raising the price of American exports. High interest rate in the United States attract capital inflow from Japan and other current-account-surplus countries, and this foreign capital inflow intensifies the problem of the overvalued dollar. The fact that the United States economy has been growing faster than other major market economies also explains fast-growing foreign imports in the United States during the past few years. As a result of the overvalue

⁵Ahearn and Reifman, op. cit., p. 9.

⁶Japan Economic Institute, *JEI Report*, no. 33A (Washington, D.C.: Japan Economic Institute), August 30, 1985, p. 2.

dollar, American textiles, apparel, footwear, steel, autos and other mature industries have further lost their comparative advantage, and even traditionally competitive industries (including agriculture, aircraft, chemicals, data processing and telecommunications) are now losing ground.

This is a serious situation. Most members of the United States policymaking community seem to understand that "the causes of America's growing trade sector pain are largely homegrown—a function of domestic macroeconomic policies put into effect in 1981."⁷ When Ronald Reagan took office in January, 1980, the United States budget deficit was approaching \$80 billion a year. It is now running about \$200 billion. During the last five years, the national debt doubled, from \$900 billion to \$1.8 trillion, transforming the United States from a creditor to a debtor nation. A major culprit was the great tax cut of 1981. Despite the deteriorating budget situation, President Reagan has consistently opposed tax increases. He and Defense Secretary Caspar Weinberger have substantially increased defense spending. Democrats in the House have not helped the situation by refusing to cut or freeze Social Security benefits. This summer the President rejected a serious deficit-cutting plan recommended to him by two fellow Republicans, Senators Robert Dole of Kansas and Pete Domenici of New Mexico. Their proposal, combining an oil tax increase and a freeze on Social Security benefits, might have reduced the deficit by half over the next three years. The Reagan administration was criticized, particularly by Congress, for refusing to intervene in the foreign exchange market even though the overvalued dollar was a principal cause of the serious United States trade deficit. Many members of Congress were apparently upset over the administration's insensitivity, reflected in its contention that "the high value of the dollar is a reflection of the strength of the American economy."⁸

The United States has not acted on the macroeconomic policy front to reduce its trade deficit; but the Japanese government has not acted to reduce its trade surplus. An often-heard United States accusation is that the Japanese government has been manipulating the dollar-yen exchange rate to make Japanese exports cheaper. This charge is widely off the mark, yet the Japanese govern-

ment can be criticized for not making a maximum effort to expand domestic demand. Even if import barriers were removed, foreign imports would not necessarily increase in Japan unless there were strong domestic demand. There is a wide discrepancy between Japan's high savings rates and its domestic investment, and this difference has been translated into capital outflow from Japan to the United States, helping to sustain the high value of the dollar vis-à-vis the yen.

Preoccupied with administrative and financial reforms to reduce government spending, the government of Yasuhiro Nakasone has been reluctant to take bold measures, like major tax reductions and increases in public and housing investments, to expand domestic demand. Instead, only private-sector efforts to increase domestic demand have been encouraged. While Japan has its own large budget, its ratio to gross national product has been one of the lowest in the industrialized world.⁸ Because of high domestic savings rates, moreover, the Japanese government can afford to borrow more without worrying about becoming a debtor country.

Despite the fact that a major part of the current trade imbalance problem between Japan and the United States has to do with the "mismanagement" of macroeconomic policies, the two governments have been actively involved in bilateral trade negotiations of late as if such negotiations could somehow solve the problem. For some years, the United States government has been attaching great importance to a "market-access" strategy, while at the same time it is trying to minimize resort to import restrictions. Throughout the postwar period the United States government has consistently upheld the free trade principle. Until the early 1960's, the United States opened its market to imports coming from Japan and other allied countries while permitting these countries to retain substantial import barriers, largely in order to maintain the solidarity of the free world nations against the Soviet bloc.

However, cold war tension began to decline toward the end of the 1960's and the beginning of the 1970's, and the lessened tensions coincided with the relative decline of the United States macroeconomic position and the loss of American comparative advantage in an increasing number of domestic industries. Subsequently, the United States government began to emphasize a more "reciprocal" approach to international trade, asking its traditional allies to open up their markets to United States products (now including services and investments). This market-access strategy allowed the United States to adhere to its free trade principles while rectifying some of the inequities that had existed in its trade with Japan and other major trading partners. Moreover, foreign market-access concessions can weaken the domestic protectionist argument that the United States is entitled to restrict foreign imports so long as foreign countries refuse to open their markets for United States products.⁹

Rational as it may sound, the United States market-access strategy has not worked very effectively. Japan and

*In September, the United States called a meeting of the Group of Five leading Western capitalist nations for the purpose of making foreign currency adjustments, in effect intervening to drive down the value of the dollar. The value of the dollar vis-à-vis the yen dropped at least temporarily. But it is not clear how long this situation can be sustained without a major reduction of the United States budget deficit, which is largely responsible for the overvalued dollar.

⁷Ahearn and Reifman, op. cit., p. 2.

⁸Shuntaro Shishido, "The Japanese Growth Alternatives and the World Economy" (Paper presented to the Project LINK Conference, Madrid, September 2-6, 1985), p. 18.

⁹Hideo Sato, "The Political Dynamics of U.S.-Japan Economic Conflicts," *Journal of Northeast Asian Studies*, vol. 3, no. 1 (1984), pp. 5-8.

other trading partners have resisted strongly because their trade barriers involved difficult domestic political problems. It was relatively easier for these trading partners to restrain their exports to the United States because export restraints involved competitive industries at home and because domestic producers could minimize the costs of export restraint, or could even increase profits, by shifting to more value-added products (from small and simple cars to larger and more deluxe cars, for example).

Consequently, United States negotiators have been able to obtain only piecemeal market-opening concessions from Japan and other countries. These concessions are not adequate to restrain American domestic protectionist demands. In fact, if the goal of the United States market-access strategy is reduction of the United States trade deficit and is not limited to the elimination of trade barriers in specific sectors, it is not likely to be fulfilled through trade negotiations alone. Thus, no matter how many remaining import barriers Japan may eliminate, the bilateral trade gap will not be closed.

One cannot overemphasize the fact that removing Japanese trade barriers is not the same thing as removing the trade imbalance. But responsible American officials often say that what counts in the final analysis is the actual result expressed in terms of a substantial reduction in the bilateral trade imbalance.

Even setting macroeconomic variables aside, whether or not the bilateral trade imbalance is substantially corrected or not depends on a number of other factors besides Japan's market liberalization, including effective marketing efforts on the part of the exporting country, product quality, design, customer service and price. President Herbert F. Hayde of the American Chamber of Commerce in Tokyo urges more active United States marketing efforts in Japan because Japan spends far more money and effort to sell to the American market than the United States spends trying to market United States goods in Japan.¹⁰

This does not exempt Japan from making further market-opening efforts. Japan has made a series of concessions in recent years, including those made in six market liberalization packages and the so-called "Action Program" announced by Prime Minister Nakasone this summer. At least in terms of objective trade rules defined by the General Agreement on Tariffs and Trade, Japan may now have one of the most open markets in the world, along with the United States. But this perception is not necessarily shared by many of Japan's trading partners. Thus Japan must continue to liberalize its own market. Unfortunately, most of Japan's market-opening conces-

sions have been made grudgingly under external pressures and therefore whatever concessions Japan has made tend to be downgraded by other countries.

There is a common perception in the United States that Japan does not act unless it is pressured from outside. United States trade negotiators resent the fact that they have to apply pressure on Japan every time there is a bilateral issue, only to see the other side concede "too little, too late" after dragged-out negotiations. What is frustrating to these Americans is not only the lack of Japanese concessions but the very passive and reactive Japanese style of dealing with trade issues.¹¹ But with no alternative, United States officials keep on pressuring the Japanese. And the more intensified the protectionist pressure in the United States, the greater the pressure American officials exert.

Since the United States trade deficit with Japan and the world has reached an unprecedented level, congressional criticism of the Reagan administration has increased dramatically. Under these circumstances, United States trade policy officials have tended to escalate their demands. According to an "informal" communication made to the Japanese Foreign Ministry in June, 1985, American officials "suggested" that Japan should change its socioeconomic structure in a way that would increase imports.¹² To sum up, the more Japan and the United States negotiate on trade, the more frustration and resentment seem to build up on both sides.

Instead of continuing trade negotiations with Japan that are increasingly seen as "a waste of time," many congressmen have suggested that the United States government should enforce the existing trade laws in order to deal with the "unfair" trading practices of Japan and other trading partners. They have been particularly critical of "the lack of presidential actions under section 301 of the Trade Act of 1974, as amended."¹³ Senator John Danforth (R., Mo.) has criticized President Reagan for equating the enforcement of trade laws with protectionism.¹⁴

In order to quiet such criticism and to prevent the enactment of protectionist legislation, President Reagan finally acted in early September. On September 7, vowing to get "a fair shake abroad" for United States products, he announced unprecedented investigations of unfair trade practices in Japan, Brazil and South Korea invoking section 301 of the Trade Act of 1974. At issue are

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¹⁰*The Japan Times*, June 6, 1985.

¹¹Sato, op. cit., pp. 9-10.

¹²*Asahi Shimbun*, June 30, 1985; Hobart Rowen, "Japan Urged to Restructure Economy," *The Washington Post*, July 13, 1985.

¹³Ahearn and Reifman, op. cit., p. 11.

¹⁴Kevin Phillips, "The Politics of Protectionism," *Public Opinion*, April/May, 1985, p. 44.

"Three ideological elements apparently motivate Nakasone politics: nationalism, reformism, and [classical] liberalism-mercantilism."

Japanese Politics in Transition?

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THE loss of 34 seats in the Japanese general election of December, 1983, compelled the Liberal Democratic party (LDP) to recruit eight Independents to secure a simple majority in the House of Representatives. The Japan Socialist party (JSP), under its new chairman, Masashi Ishibashi, and the two centrist parties, Komeito and the Democratic Socialist party (DSP), gained seats; the Japan Communist party (JCP) and the New Liberal Club (NLC) lost; the Shaminren (Social Democratic Club) remained unchanged.

With an even balance between the ruling and the opposition forces, discussions of coalition government have become more realistic. In June, 1985, the JSP drafted a new platform, trying to shed its revolutionary rhetoric and move from a Marxist class party to a "national party backed by various strata of people," that is, a catch-all party. JSP's move represents an effort to reverse a downward trend, which lasted for over ten years until the last elections, and reflects a sense of crisis over the dwindling strength of Sohyo, the national labor union federation, which has been the backbone of the JSP. The new JSP platform is to be formally adopted at its December, 1985, convention.

In spite of the rightward turn of the JSP and the decline in the LDP's share of Diet seats and votes, the LDP continues to dominate the overall political landscape. However, there have been some signs of change within the LDP, where most important public policy decisions are made. What are the signs? Why and how are they occurring? How would they affect Japan's domestic and foreign policies and, ultimately, the quality of life of the people in Japan and elsewhere?

First of all, former Prime Minister Kakuei Tanaka's influence and Prime Minister Yasuhiro Nakasone's policymaking tactics must be analyzed. "Tanaka controls the party's informal apparatus and Nakasone controls the

formal governmental structure."¹ This was the accepted observation until late February, 1985, when Tanaka suffered his third stroke. His chances for a political comeback seem slim. The significance of his possible retirement can be understood only with some knowledge of how Tanaka has held the "power to control the fate of the LDP" during the administrations of Masayoshi Ohira, Zenko Suzuki and Yasuhiro Nakasone.²

After his conviction in the Lockheed payoff case in July, 1976, Tanaka formally withdrew from the LDP and from his own faction, the Mokuyo (Thursday) Club, which then had 95 members. His faction was headed for schism or gradual dissolution. Tanaka, however, adopted an aggressive strategy to expand the faction's size and control the nomination of the party presidency-cum-prime ministership and other posts in the LDP and the government. The Tanaka faction now boasts 123 Diet members in the 393-member LDP; with the rest of the LDP made up of the Suzuki faction with 77 members, Takeo Fukuda, 67, Nakasone, 65, Toshio Komoto, 36; 25 members are not affiliated with a faction.

The attraction of the Tanaka faction lies in its size, which provides faction members with better access to both Cabinet or party posts and political funds. Tanaka recruited members by offering Cabinet posts to nonaffiliated Diet members in exchange for their membership. This bred some discontent among older members, whose political appointments were thus delayed. With the largest number of influential Diet members, the faction has also been able to take care of most requests (from subsidies to legislation) from its members' constituencies or support groups.³

Because Tanaka held a veto power in the LDP presidential election, he was called the kingmaker. Tanaka's support allowed Nakasone to win the LDP presidency in November, 1982. Again, in the October, 1984, presidential race, Tanaka enabled Nakasone to abort the plot to replace him with 75-year-old Susumu Nikaido, Tanaka's lieutenant and the LDP's vice president. The unexpected challenge was supported by the LDP "senior powers," former Prime Ministers Suzuki and Fukuda, with informal support from centrist party leaders. The second-term Nakasone Cabinet gave the Tanaka faction 6 of 20 Cabinet posts and 2 of the 4 party executive posts.

How has Tanaka rule affected Japanese politics? First, the transparency of the political decision-making process

¹Nathaniel B. Thayer, "Japan in 1984: The Nakasone Era Continues," *Asian Survey*, vol. 25, no. 1 (January, 1985), p. 52.

²*Asahi Shimbun* (*Asahi* hereafter), January 20, 1985.

³Seizaburo Sato and Tetsuhisa Matsuzaki, "Jiminto choki seiken no kaibo" (Analysis of the LDP long-term regime), *Chuo Koron*, vol. 99, no. 11 (November, 1984). They define the influential Diet members as those who have held more than two terms as Cabinet minister, three party posts, i.e., secretary general, PARC chairman, and somukaicho, president or vice president. The total of "influentials" is 143, 14.2 percent of the LDP Diet members.

has been greatly reduced; important decisions are made by a nonparty member, who is not in a position to take political responsibility.

Second, the importance and quality of policy debate in party politics declined markedly with the penetration of Tanaka's philosophy that "politics is power; power is numbers" and money.

Third, an LDP presidential candidate (hence the Prime Minister) must be able to win public works and subsidies projects for his faction. This has led to the widespread practice of using government budgets for personal vote-gathering or fund-raising purposes. Some analysts call Japan a *doken-kokka* (public-works state) or *hojokin-gyosei kokka* (a state with a subsidies-oriented administration).⁴

Fourth, under a more balanced factional division, when an anti-mainstream faction took over the party presidency, there were significant changes in policy and ideology. The one-strong, four-weak factional alignment has eliminated a faction's quasi-party role, resulting in what can be called a factional dictatorship rather than party dominance.

Fifth, Tanaka rule has been self-eroding. Tanaka's strategy of indirect rule, making a sort of puppet out of a leader of another faction, has deprived his faction of an opportunity to put up its own presidential candidate. Nikaido's revolt and the formation in February, 1985, of the Soseikai study group by Finance Minister Noburu Takeshita, another faction leader, in defiance of Tanaka's opposition, reflected the frustration that had accumulated within the faction. Yet the faction (its numbers swollen by those lured by money and position) has failed to produce a successor to Tanaka with strong leadership qualities.

Finally, Tanaka rule has deepened public distrust of politics and has expanded the noncommitted voter group. The opposition has failed to present real alterna-

⁴Michisada Hirose, *Hojokin Po Seikenpo* (Tokyo: Asahi Shimbun, 1981).

⁵Yasuo Kaminishi, "Tenki no sengo seiji rensai oete" (After completing the series on postwar politics at a turning point), *Mainichi Shimbun* (*Mainichi* hereafter), July 24, 1985.

⁶*Asahi*, April 22, 1985. For example, disputes surrounding the top personnel appointments in the privatized Nippon Telegraph and Telephone Company (NTT) came into the open. The press also reported the suspension of a number of large-scale public corporation projects that had been initiated by Tanaka's informal plan and his assurance on funding.

⁷*Nihon Keizai Shimbun* (*Nikkei* hereafter), July 28, 1985; *Japan Times Weekly* (*JTW* hereafter), August 17, 1985. Foreign Minister Shintaro Abe has tried to distinguish himself from Nakasone's hawkish image and from the hardline Kishi-Sato lineage of the Fukuda faction by adopting a moderate foreign policy line, for example, on the American Strategic Defense Initiative and UNESCO issues. Miyazawa called for caution in scrapping the one percent ceiling on the GNP for defense spending. Takeshita's Soseikai group has been working on his "*Nippon rettoh furusato koso*" (Japan as a community plan).

⁸Ken Otani, "Hocho sorowanu zaikai no masatsu taisaku" (Big business in disarray), *Chuo Koron*, vol. 100, no. 10 (October, 1985), pp. 226-233.

tives. Diet deliberations have turned into prearranged question and answer sessions, and there are rumors that opposition votes (except for the JCP's) may be bought either by money or by other favors. A *Mainichi* newspaper survey team has reported a clear correlation between the LDP's Diet expense disbursements and the waning of opposition parties' resistance to controversial bills. It traced the formation of the prototype of this LDP-opposition relationship to the Japan-South Korea Treaty Diet session in 1965, when Tanaka was the LDP secretary general.⁵

Tanaka's illness has led to signs of change. Increasingly, important personnel and policy decision-making processes have become exposed.⁶ And the New Leaders (Finance Minister Noburu Takeshita, Foreign Minister Shintaro Abe, and LDP Policy Affairs Research Council [PARC] chairman Kiichi Miyazawa) seem more eager to develop their own policies and demonstrate their differences with Nakasone in controversial areas.⁷

Whether there will be any qualitative change depends in part on whether the Tanaka faction splits and the rule by numbers ends. Some observers predict that both Nikaido and Takeshita will recognize the merit of the faction's present size and will hence reconcile their own differences, planning a transitory Cabinet led first by Nikaido and then by Takeshita. Others predict a split. Perhaps inertia will be a more important factor, i.e., whether the attitude and behavior patterns rooted in the system can change.

NAKASONE POLITICS

Nakasone has developed a unique political style, which may deserve the label Nakasone politics. Observers of Japan's policymaking once emphasized the influence of big business and the bureaucracy; but recent analysts recognize that big business has declined in influence and that the power of the LDP is growing. The Japanese economy has become internationalized and economic growth has slowed since the 1973-1974 oil crisis. Thus the division between export-oriented, technology-intensive industries (like the automobile industry) and others (including industries like steel and shipbuilding) has grown deeper. This has made it increasingly difficult for the so-called *zaikai* (a term usually referring to the economic organizations Keidanren, Nikkeiren, Keizai Doyu-kai and Nissho) leaders to unite and pressure the government.⁸

Meanwhile, because the LDP has ruled without interruption since 1955, the bureaucracy has become increasingly supportive of LDP demands. The bureaucrats know that the LDP can influence their promotions and their postretirement jobs. While the party formerly recruited high-ranking bureaucrats, in recent years younger career bureaucrats who demonstrate cooperativeness and efficiency are nominated as LDP candidates, retire from the ministry, and run for the Diet.

Another factor in Nakasone politics is the increased

expertise of Diet members in the LDP; many LDP Diet members have acquired expertise and connections superior to those possessed by the career bureaucrats who rotate their posts every two years or so. Expert groups are called "tribes" (*zoku*) and are known for close participation in the policymaking process from drafting to implementation, and for their powerful lobbying activities.

Tanaka was a pioneer in this development. A member of the Political Affairs Research Council's construction division and the House of Representatives Construction Committee for eight years after he was first elected to the lower House in 1947, Tanaka became an expert in construction. Ignoring the Construction Ministry's opposition, he introduced a toll road system and, over the Finance Ministry's strong opposition, legislated the gasoline tax as a revenue source for road construction. The tax has since been credited for the rapid growth of highway and freeway networks.

Tanaka was also the key figure in establishing LDP influence over public works and subsidies budgets. After he became finance minister in 1962, Tanaka expanded his influence over the allocation of construction budgets, which were highly lucrative during the rapid economic growth period. A Ministry of Finance officer noted that the continued demands of LDP Diet members for public works projects after the 1973–1974 oil crisis was an important factor in the issuing of government deficit-financing bonds. Some analysts emphasize the tight budget situation following the oil crisis, which intensified the struggle over the "no-growth pie," as the central factor in the growing influence of the LDP tribes.⁹

Analysts agree, however, that bureaucrats still control the drafting of a policy outline, while the party sets the goals and coordinates interministerial policy differences. The bureaucracy-party relationship is seen as cooperative and competitive, rather than conflictive. The internationalization of the Japanese economy is perceived as another factor expanding the coordinating role of the LDP's PARC and the tribes, because it has greatly increased interministerial disputes over jurisdiction.

Nakasone realized that these disputes posed serious obstacles to his reform plans. He was impatient with the bureaucracy, which he once described as too inflexible, shortsighted and sectionalist to deal with issues that require prompt, decisive actions, particularly in the international arena. The question was how to supplant the influence of the bureaucracy and the LDP tribes and how

⁹It has become an unwritten rule for LDP Diet members to secure some public works projects for their home districts to ensure both votes and political donations. *Jiminto Seichokai* (Tokyo: Nihon Keizai Shimbun-sha, 1983); Takashi Inoguchi and Tomoaki Iwai, "Jiminto no seiji-keizaigaku" (LDP's political economics), *Chuo Koron*, vol. 100, no. 3 (March, 1985).

¹⁰*JTW*, July 20, 1985. This kind of free hand would no longer be available to him with Tanaka's retirement. Yet Nakasone seems to be interested in a third term although it will require amendment of the LDP bylaws. Nakasone's post-Tanaka tactic seems to be to forge closer relations with both Takeshita and Abe. *Mainichi*, July 12, 1985; *Asahi*, July 28, 1985.

to deal with Tanaka's abnormal indirect rule and his weak intraparty power base. Nakasone's answer was to advocate the popular election of the Prime Minister, to appeal directly to the public, and to mobilize support for his policies by drawing on the opinions of presumably neutral advisory councils.

In 1983, Nakasone revised the National Government Organization Law to remove the Diet's control over the creation of advisory councils and intraministerial organizational reforms. In theory, advisory councils are to introduce more professional knowledge, information and opinion, and thereby to democratize the policymaking process in the interest of fairness, objectivity and effectiveness. However, Nakasone's advisory councils have often been criticized for their strong bias toward Nakasone's personal preferences. Some members have been appointed repeatedly to different councils.

Understandably, many LDP Diet members have been unhappy about Nakasone's tactics, which they see as undermining their influence. Ironically, Tanaka rule left Nakasone a rather wide leeway. Bearing Tanaka's whims in mind, Nakasone could use an advisory council's opinions and his own popularity in successive opinion polls to fend off intraparty criticisms. Mounting discontent in the LDP ranks was a factor in the anti-Nakasone plot in the 1984 LDP presidential race. Nakasone has since moderated his style, but critics find little change in his basic attitudes.

Some analysts detect in these developments a new trend toward the centralization of power in the hands of the Prime Minister. Nakasone has made no secret of his wish to act like a President.¹⁰ Observers generally agree that he has been fairly successful in manipulating public opinion.

ISSUES AND IDEOLOGIES

Although reapportionment has not been on Nakasone's agenda, it has long been on the national agenda; because of rapid urbanization, urban representation in the Diet is disproportionately low. In July, 1985, the Supreme Court ruled that the 1983 general election was unconstitutional because of a disproportionate distribution of Diet seats. The LDP subsequently submitted its six-six proposal, to eliminate six Diet seats in rural districts and add six seats in densely populated urban districts. Opposition parties drew up alternative plans.

When he returned from his European tour in June, 1985, Nakasone promised to handle the issue with "maximum effort," but he seems less than enthusiastic. However, this could be an important chance for him to restore urban voters' political interest and a way to reduce the membership in the lower House to achieve efficiency and cut the budget, twin goals of the administrative and fiscal reforms that have been his top priority issues.

The first item on Nakasone's agenda is administrative reform, which was initiated by the Suzuki Cabinet with the appointment of the ad hoc Administrative Reform

Commission (Rincho). Nakasone, then director general of the Administrative Management Agency, collaborated closely with the commission, which had produced some 1,300 recommendations by March, 1983, when it submitted its final report to Prime Minister Nakasone. Evidently impressed by the effectiveness of Rincho-style advisory media for mobilizing public support, Nakasone created the Provisional Council for the Promotion of Administrative Reform (Gyokakushin) to follow up the work of the commission and to make its own proposals. Recommendations deal with domestic financial reconstruction and external pressure for market opening and internal demand stimulation.

While the Rincho made "financial reconstruction without tax increases," its slogan, Gyokakushin's emphasis notably shifted away from budget cuts and toward organizational reform to strengthen the Prime Minister's power, and utilization of private sector vitality (*minkan katsuryoku* or *minkatsu*).

Gyokakushin's report called for "strengthening the comprehensive coordination capability of the government" as an "urgent task." Noting that Japan's traditional from the bottom up decision-making system is not only time-consuming but is also increasingly less effective in addressing complicated external issues, it proposed the creation within the Cabinet secretariat of two new offices to handle intragovernmental coordination and to enable the Cabinet and the Prime Minister to demonstrate their leadership by making "swift and correct" responses to external and relevant internal issues in the "age of internationalization." Initially, Foreign Minister Shintaro Abe opposed the idea because of the danger of dual diplomacy, but he compromised on a plan to name a deputy foreign minister as its head.¹¹

The report called for the reorganization of the almost-defunct National Defense Council as a National Security Council in charge of hijacking and terrorism in addition to national security policy, and the creation of a National Security Office within the Cabinet secretariat to draft 24-hour information gathering and emergency manuals.

It also recommended that, when local public bodies refuse to comply with a central government's order, the

¹¹JTW, August 10, 1985.

¹²Yasuo Kaminishi, "Tenki no sengo seiji" (Postwar politics at a turning point) (hereafter "Tenki"), *Mainichi*, part 4, no. 3 (1985). He cited a case in which a foreign policy specialist suggested that Defense Agency Director General Asao Mihara should propose the creation of a joint defense research institute to United States Defense Secretary Harold Brown, since it was in fact what the United States had in mind. Brown told him that he had heard of that Japanese idea and declined to support it financially. The Japan National Security Research Center (created two years later, in 1979) included as supporting members Nakasone, Kanemaru, Nakagawa Ichiro, and Kasuga Ikko, along with former Defense Agency officials.

¹³JTW, January 7, 1984; April 20, 1985. The Mitsubishi Heavy Industry, Japan's largest defense contractor, has been the most active and has dominated the Defense Production Committee of Keidanren (Federation of Economic Organizations).

latter should be empowered to subrogate local administrative acts without court decisions (today, a court decision must precede subrogation). The National Governors' Council immediately expressed opposition to this idea, charging that it undermined the basic principle of local autonomy. In Nakasone's emphasis on Japan's historical achievement, the reestablishment of Japanese identity and the exploration of cultural roots, observers note a trend toward "neo-nationalism." In October, 1984, Nakasone enthusiastically pledged financial support for the plan to establish a research institute for Japanese studies proposed by the so-called Kyoto school of academics.

In these movements, critics detect a reactionary trend. Nakasone is an ardent nationalist, who opposed the United States-Japan Security Treaty in 1952; he became the first postwar Prime Minister who attended both the controversial National Founding Day ceremony organized by a conservative group in support of the constitutional revision in February, 1985, and the memorial ceremony in August, 1985, at the Yasukuni Shrine, the pre-war Shinto headquarters. He did so in his capacity as Prime Minister, despite vocal domestic opposition and protest from Japan's Asian neighbors.

Critics charge further that Nakasone's defense buildup may lead to militarism. In late December, 1984, a week before he visited Los Angeles to meet United States President Ronald Reagan, Nakasone decided to scrap Japan's policy of limiting defense spending to less than one percent of the gross national product (GNP), a policy that had been adopted by the Takeo Miki Cabinet in 1976. In February, 1985, he told the opposition in the Diet that he wanted to keep the ceiling, if possible. In early July, a Prime Minister's Office survey reported that public opposition to a defense increase had grown 8.6 percent, to 71.8 percent since 1981. In late July, Nakasone nevertheless again decided to scrap the ceiling, reportedly to prevent the United States Congress from confusing trade and defense issues when it returned from its summer recess. LDP members urged caution. Nakasone retracted his "decision" statements, but he ordered the National Defense Council to work on a new five-year defense buildup plan for fiscal 1986-1990, which would make the abolition of the ceiling inevitable.

United States pressure has often been cited as a reason for government action; yet a high-ranking Defense Agency official is reported to have said that Tokyo often originates the pressure. For example, a floating runway plan to solve the noise problem created by the night takeoff and landing training of United States forces in Japan was first developed by Japan's depressed industries, e.g., steel shipbuilding, cement, and construction, sold to the United States Congress and the United States Department of Defense, and then presented to the Japanese as a United States plan.¹² As this case suggests, Japan's heavy industries have been an important source of pressure for defense spending increases.¹³ High-tech industries have also

been keen to win defense contracts, which totaled ¥1.1 trillion in 1984.

Another major problem is how to expand domestic demand without jeopardizing the Rincho goal of reducing budget deficits without tax increases. As one might expect, Rincho's proposals coincided with Nakasone's idea of reducing government intervention rather than undertaking fiscal measures. The mainstream *zaikai* leaders immediately endorsed the proposals.¹⁴

Why did *zaikai* leaders shift from their traditional dependence on budgetary expansion in time of recession to a more independent policy? Simply put, through rationalization and export expansion, they had excess money and equipment as a result of their rapid recovery from the post-oil-crisis recession. Foreign pressure on Japan to expand domestic demand was growing. Business leaders needed to create a domestic target for spending their resources. Besides, the government budget deficit was expanding at least in part because of the entrenched business dependence on public works to stimulate the economy. Business feared a corporate tax increase if the deficit were to continue to grow.

Privatization and decentralization are other Gyokushin goals. Following the Rincho advice backed strongly by *zaikai*, the government privatized the Nippon Telegraph and Telephone and the Japan Tobacco and Salt Public Corporations in April, 1985; the Japan National Railways is scheduled to be divided into five private firms. Since both the NTT and JTSPC had been significant sources of government revenue instead of deficit and since in the case of the deficit-ridden JNR the government takes care of the existing deficit and terminates nonprofit-

¹⁴Jichi mondai kenkyujo, ed., *Zaikai no toshi kaizo senryaku* (Big business's strategy of urban reform) (Tokyo: Jichi mondai kenkyujo, 1983), p. 5. The press also noted Nakasone's ties to the Japan Project Industry Council (JAPIC), formed in April, 1983, by steel, real estate, construction, general trading firms, and long-term credit banks to promote *minkatsu*-based public-works projects. The JAPIC was headed by New Japan Steel president Saito Eishiro and Kajima Construction president Ishikawa Rokuro, Nakasone's distant relative. Ishikawa is said to have introduced the *minkatsu* idea to Nakasone before Nakasone became Prime Minister. Also revealing was the report that Nakasone had been particularly eager to promote the sale of public lands as a way to stimulate private sector investment in a time of tight budgets on public works. The press has also reported a rapid increase in Nakasone's contacts with construction and real estate brokers. *Asahi Shimbun*, October 8, 1984.

¹⁵*Asahi*, July 27, 1985.

¹⁶*Mainichi*, July 5, 1985.

¹⁷Nakasone keeps close personal contacts with his Navy colleagues who, like Nakasone himself, were recruited from civilian ministries toward the end of World War II, through the *Tengen* Club, which includes top business and political leaders. Nakasone's trusted adviser, Ryuzo Sejima, who graduated first in his Imperial Army college class, has also been active in various such groups. Nakasone has repeatedly talked about how to expand Japan's role in world politics, upgrade Japan's defense capability, and establish a Japanese identity and moral standards through educational reform and the promotion of rigorous research on Japanese culture. "Tenki," *Mainichi*, part 1, no. 8 (1985).

able local lines, critics charged that the whole scheme was an industry plot to take over profitable business sectors and the large JNR-owned lots scattered in choice locations all over Japan.¹⁵

In response to external pressure to expand domestic demand, which has been amplified by domestic business and some LDP leaders, in the 1986 budget Nakasone approved the resumption of hitherto frozen "national projects," which include a highway across Tokyo Bay and a bridge linking Honshu (Hyogo) and Shikoku Island.¹⁶

Educational reform is another top priority issue on the Nakasone agenda. The administration's ultimate goals are to strengthen individualism, internationalism and patriotism, emphasizing the importance of moral education ahead of intellectual and physical education.

IDEOLOGICAL ELEMENTS

Three ideological elements apparently motivate Nakasone politics: nationalism, reformism, and liberalism-mercantilism. Nationalism has been one of the strongest motivating forces of Nakasone's career. Nakasone's Imperial Navy service was brief but, as observers note, its influence is kept alive through a variety of personal and group ties.¹⁷ Nakasone has shelved constitutional revision, but opposition leaders complain that he has been diluting the peace principles of the postwar constitution.

The second element is reformism (a commitment to changing the system from within, in Nakasone's case toward a stronger national image and power), reinforced by the influence of a group of younger bureaucrats and intellectuals who worked as a braintrust for the late Prime Minister Masayoshi Ohira. Ohira created nine advisory councils to develop long-term visions in areas ranging from family life to "comprehensive national security." While Suzuki, Ohira's immediate successor, ignored this legacy, Nakasone developed close contacts with those who participated in the Rincho. Along with the braintrust, Nakasone inherited from Ohira the very idea of using advisory councils. The goal, however, has changed from developing a long-term vision to solving more immediate problems.

What some call a Japano-mix of classical liberalism and mercantilism is the third ideological current. The central concern of business leaders has been how to prevent Japan from catching the "advanced countries' diseases," particularly the decline in the work ethic, growing government intervention and the crippling of the market mechanism. They share a belief in the free market, the survival of the fittest, and small government as the key to

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"Japan . . . looks to an economic future of moderately high economic growth, somewhat greater difficulty in controlling its economy, and an industrial sector that is highly competitive but vulnerable to protectionist pressures abroad."

Japan's Economy

BY DICK K. NANTO

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IN August, 1985, Japan's Economic Planning Agency released a white paper on the economy declaring that Japan was entering a new age of economic growth without inflation. The decade of oil crises and runaway inflation had ended, and the country was poised to take advantage of new growth opportunities generated internally by a rapid orientation to the new information society and externally by high economic growth among other Pacific Basin countries.

Four decades have passed since Japan surrendered unconditionally and began to rebuild its economy. The path has been long and arduous from the dismal postwar days when United States policy shifted from retribution and toward reconstructing Japan to become the "workshop of Asia."¹ Following the export boomlet induced by United States procurement needs for the Korean War, the "Phoenix risen from the ashes" of the 1960's became the "emerging superstate" of the 1970's and the "global economic superpower" of the 1980's.

Currently Japan's gross national product (GNP), at \$1.2 trillion, is eclipsed only by that of the United States (\$3.7 trillion) in the non-Communist world. The Japanese economy has grown to about the same size as the Soviet Union's or that of France and the United Kingdom combined. It accounts for about 10 percent of total world economic output. In financial strength, also, Japan was expected in 1985 to become the largest creditor nation in the world.

At about \$9,000, however, income per capita in Japan is somewhat below that of the United States, West Germany, Canada or France.² Still, considering that at the end of World War II, Japan's per capita income had dropped almost to the level of United States per capita income in its colonial period, the economic progress of the past 40 years borders on the phenomenal.

Japan founded its economic strength on its people. Lacking natural resources or a sizable land mass, the

country has combined labor and capital to gain a comparative advantage in many industries. In some cases these industries have become world leaders in product development and in manufacturing process improvements. Japanese industries hold major market shares in products like cameras, television receivers and videocassette recorders and capture about half the new orders for commercial ships; they lead in world steel production and their computer industry, which has broken through the dominance of the IBM Corporation domestically, is pressing to narrow the United States lead in other markets.

In the *Fortune* directory of the largest industrial corporations outside the United States (ranked by sales) Japanese firms occupied 9 of the top 40 slots (Germany had 7, Britain 5, France 4, and Italy 3).³ Dai-Ichi Kangyo and Fuji Banks rank second and third, respectively among the top 10 banks in the world ranked by size of assets at the end of 1984, and Japanese banks occupied fifth, sixth and eighth positions also.⁴

Between 1974 and 1984, the Japanese economy grew at an average of 4.5 percent per year, at a faster rate than other advanced industrial nations, but far more slowly than the average 8.8 percent growth in the previous decade. Primarily because of its success in exporting Japan's manufacturing sector became predominant in the economy. The manufacturing sector's share of domestic output rose from 30 percent in 1970 to 36 percent in 1982.

Although the Japanese people have been slow to appreciate the magnitude of their economic progress and its influence on the world economy, Japan has reached economic superpower status. Despite its late entry into the industrialized world, Japan has been racing to catch up with the advanced Western nations for more than a century.

During much of this period, Japan followed a pattern of import-substituting industrialization with a healthy dose of domestic competition. The typical pattern of industrial development would begin with a market created by imports, followed by domestic production substituting for those imports, then followed by exports. At times, the process consisted of importing a few machines before building domestic versions, many of which improved the imported product. The French Jacquard loom

¹Dean Acheson, *Present at the Creation* (New York: Signet, 1970), pp. 306-307.

²Japan Institute for Social and Economic Affairs, *Japan 1984: An International Comparison*, 3d ed. (Tokyo: Keizai Koho Center, 1985), p. 11.

³"The International 500," *Fortune*, vol. 111 (August 20, 1984), p. 202.

⁴"Top 500," *The Banker*, vol. 135, no. 713 (1985), p. 133.

in the late 1800's or, more recently, large-capacity thermal power generators were typical examples.⁵

Japanese industries were aided in this development by a supportive central government, a disciplined and highly educated labor force, sufficient domestic savings to finance capital investment, a relatively productive agricultural sector, and a wide assortment of foreign technology available at relatively low prices. Japan was also able to follow self-centered economic strategies without causing undue harm or exceptionally adverse reactions from other countries.

In recent years, Japan's industrial growth has hinged on the activities of a business sector that has been led by managers who have built world-class industries based on sound management principles. Japanese management practices include employment security, a holistic approach to the development of individuals in corporations, long-term planning horizons, precision quality control, and a high rate of technological innovation.⁶

ECONOMIC VULNERABILITIES

Japan's overall economic strength, however, masks a multitude of weaknesses in certain industries. In 1984, nearly 17,000 Japanese corporations declared bankruptcy (about 1 percent). Not all Japanese products sell well overseas or can compete at home without some protection.

Foreign perceptions of Japanese economic strength are colored by the large exporting giants (e.g., consumer electronics, automobiles and machine tools) whose products are in high demand abroad. These industries, however, represent Japan's best. Little is heard about the aluminum smelting, petrochemical, fertilizer, motion picture, or polyester fiber industries that are in decline.

Labor productivity in industries like leather, pulp and paper products, printing and publishing, foodstuffs, and apparel is only about half the level of American productivity. And despite the precipitous drop in the farming population in the postwar period, Japanese agriculture is still relatively high-cost, although it is productive in terms of the land available. Seventy percent of Japan's farms have less than 2.4 acres of land, and only 1.7 percent of the farms have more than 12 acres.⁷

⁵Hiroshi Takeuchi, *Flexible Structure of the Japanese Economy* (Tokyo: The Long-Term Credit Bank of Japan [LTCB], 1983), pp. 34–36.

⁶Dick K. Nanto, "Management, Japanese Style," in Sang M. Lee and Gary Schwendiman, eds., *Management by Japanese Systems* (New York: Praeger, 1982), pp. 3–24.

⁷*Japan Statistical Yearbook, 1984* (Tokyo: Japan Management and Coordination Agency), p. 149.

⁸"Another Turn of the Wheel," *The Economist* (London), March 2, 1985, p. S-5. United States Congress, House of Representatives, Committee on Energy and Commerce, *Fair Practices and Procedures in Automotive Products Act of 1983, Report*, 98th Congress, 1st Session (Washington, D.C.: U.S. Government Printing Office, 1983), p. 59.

⁹Japan Institute for Social and Economic Affairs, op. cit., p. 68.

Even those industries that have achieved world-class competitive status face considerable uncertainty. In 1984, for example, the Japanese automobile industry was the world's largest, producing 11.4 million cars, trucks and buses. Japan exported 6 million of those units. This penetration of foreign markets, however, could be a two-edged sword. With production levels more than twice the amount the domestic economy can absorb, the industry is highly dependent on conditions outside the domestic economy and beyond its control. In 1983–1984, virtually all the profits of Japan's automakers came from the American market, from which their shipments could have been slashed dramatically if the domestic content legislation approved by the United States House of Representatives had been enacted into law.⁸ The consumer electronics, watchmaking and camera industries are also vulnerable to conditions abroad because of their high dependence on exports.

In addition to export vulnerabilities, Japan is exposed to disruptions in supplies of critical raw materials. Without domestic reserves of natural resources, the country depends on imports for virtually all its crude petroleum; natural gas; iron, lead and copper ores; bauxite; wool; and cotton. It imports more than 80 percent of its coal, 60 percent of its wood, and about half its caloric intake of food.⁹

Japan's economic prosperity, in other words, depends on an open world economy that will continue to provide Japan with access to sources of raw materials, will allow unfettered cargo shipping, and will keep markets open to Japanese exports of manufactured goods. Japanese decisionmakers understand that if anything occurs to disrupt trade, like closed shipping lanes or a wave of world protectionism, they stand to lose more than most countries.

AN UNCERTAIN AGE

Today Japan is at a major turning point in its economic history. Although currently riding the crest of a wave of success, and despite the optimistic forecast by the Economic Planning Agency of the beginning of a new age of growth, Japan has found that many conditions that supported its rapid economic development have now changed.

Just as 1954 marked the end of the postwar reconstruction, and 1973 the beginning of supply limitations, the mid-1980's mark a new and more uncertain era. Japan faces conditions that are similar to those already faced by other advanced nations. They are caused by Japan's new visibility, the internationalization of the economy, and the diminished ability of government to direct the economy.

The first and most important characteristic of this new age is Japan's position in the world economy. The country is no longer invisible. In the past, it could exploit market niches, or as the Japanese say, "glean rice from the fields." Japanese exports could slip into markets—

usually at the low end—without drawing much notice. The country could count on exports rising at double-digit rates each year without causing severe repercussions in importing nations. Admittedly, disputes over Japan's exports of textiles, steel and television receivers flared periodically, but these disputes could be managed by stretching out negotiations and establishing a relatively large Japanese market share either through quotas or voluntary restraints.¹⁰

In the 1980's, however, there is a "sore thumb" effect. The country's exports have grown so large that even in massive markets like the American they stand out and appear to cause disruptions. A wide spectrum of American industries, moreover, has been or is being threatened by competition from Japan; and a loose coalition of American interests is willing to support measures to prevent further Japanese incursions into American markets. Not only in the United States, but in other advanced industrial nations as well, Japan's competitiveness is increasingly viewed as threatening domestic interests.

In the future, Japan will find that increased exports to other countries will probably require a similar increase in imports into its own market. It will also find it increasingly difficult to stimulate its own economy by mounting export drives, particularly if other economies are stagnating.

The second major characteristic of the new age is the growing internationalization of Japan's domestic economy and its increasing economic interdependence. Given the country's large role in international trade, plus the rapid reduction in official import barriers in its product and capital markets, economic activities in Japan are being influenced more and more by economic activities abroad. Japan can no longer adopt macro- or micro-economic policies without considering their impact on other countries. Foreign economic policies, moreover, particularly those of the United States, not only affect Japan but place a constraint on its domestic policies.

Interest rates are a case in point. For most of Japan's history, domestic rates were fairly independent of conditions abroad. Since 1980, however, Japan has taken measures to liberalize foreign currency and capital controls.¹¹ This has created twin channels that cause Japan's interest rates to move more in concert with those of other advanced nations.

The monetary authorities at the Bank of Japan and the Ministry of Finance control the first channel. In 1980–1982, for example, rising interest rates in the United States put downward pressure on the value of the yen and

induced Japanese economic policymakers to adopt measures to lead domestic short-term interest rates higher in order to protect their monetary exchange rate.¹²

The second channel is influenced by international capital flows. The liberalization of Japan's capital markets freed private investors and portfolio managers (within some limits) to shift assets to those countries offering the highest rates of return. In 1984, for example, Japan experienced a \$50-billion net outflow in long-term capital as investors sought higher interest rates and investment opportunities abroad. Much of this capital flowed into the United States. Such flows tend to reduce interest rates abroad and raise them in Japan.

Another example of how domestic policy is limited by international considerations is Japan's proposed protection for computer software. In years past, foreigners would probably not even know such a law had been proposed until it was approved and applied to their products. But as Japan was drafting the legislation governing copyright protection for computer software, the United States objected to the shorter period of protection, the requirement for disclosure of details in the programs and, in certain cases, compulsory licensing. In the end, Japan dropped its proposal in favor of one that harmonized protection with that of the United States. The United States was able to monitor proposed Japanese legislation, and it would object if Japan adopted policies favorable to its own competitive position at the expense of others.

The third characteristic of the new age of limits is the diminished role of government and its influence on the private sector. The popular interpretation of Japanese economic history is that much of its industrial successes can be attributed to the skillful work of Japan, Inc., the triad of business leaders, bureaucrats and politicians who guided the economy to world-class status.

There is no doubt that the government worked hand in hand with business in fostering modern economic development in Japan. Historically, the ministries attracted Japan's brightest new college graduates; and the central government had the authority to set the national economic agenda, to intervene in private economic decisions (through administrative guidance), and to veto undesirable dealings with foreigners.

During most of the postwar period, moreover, there was a national consensus that Japan's top priority was to catch up with the other advanced industrial countries of the world. Domestic industries were to be strengthened to compete internationally. Domestic infant industries were favored, even if Japanese consumers had to put up with high prices and low quality during the initial years. Social infrastructure, housing, and consumer needs took second priority to industrial development.

Japan's two most powerful ministries—the Ministry of Finance and the Ministry of International Trade and Industry (MITI)—controlled foreign exchange transactions, granted import licenses, accorded access to govern-

¹⁰I.M. Destler and Hideo Sato, *Coping with U.S.-Japanese Economic Conflicts* (Lexington, MA: Lexington Books, 1982), pp. 13–18ff.

¹¹Yukihiro Harada, "Financial Deregulation in Japan: Present State and Outlook for the Future," *LTCB Research*, no. 80 (May, 1985), pp. 1–8.

¹²Japan Economic Planning Agency, *Economic Survey of Japan, 1983/1984* (English translation of *Keizai Hakusho*) (Tokyo: Ministry of Finance, 1984), pp. 160–163.

ment or government-guaranteed financing, provided targeted tax breaks, designed government assistance for declining industries, and influenced access to bank loans through the Bank of Japan's "window guidance" given through its rediscount window.¹³ With their high debt-equity ratios, their continual need for new loans to finance expansion, and their need for foreign exchange to import raw materials and new capital equipment, corporations took pains not to offend government officials. The ministries could pull an array of levers to induce businesses to heed their instructions.

Japan's controls over foreign investment, moreover, kept foreign firms from establishing new subsidiaries in Japan. Joint ventures between foreign and domestic firms were encouraged but required government approval. And MITI allegedly was not averse to changing the provisions of a contract it deemed unfavorable to the Japanese partner.

Given such power, the government could determine which activities were to be permitted in Japan. It also could induce domestic firms to pursue a national agenda, or as they called it, their "vision" of the future. In Japan, what was good for economic growth was good for the country. Otherwise it was not allowed.

By the mid-1980's, however, the power of the ministries had eroded. Given the decontrol of foreign exchange and capital transactions, with businesses no longer dependent on the government for loans or loan guarantees, with no consensus on the national priorities, and with private firms obtaining access on their own to foreign information and technology, the power of the government to intervene has diminished. With less intervention activity, MITI is rapidly assuming the role of a think tank that can analyze trends and give advice on strategy rather than controlling the day-to-day activities of businesses under its jurisdiction.¹⁴ Japanese industrial policy now tends to focus on the two ends of the product cycle—at the launch and at the decline of an industry—the times when firms most need outside assistance.¹⁵

Japanese big business, moreover, has been pushing a program of administrative reform. This is primarily aimed at reducing Japan's long-term national debt, which reached ¥122 trillion (about \$500 billion or close to 50 percent of GNP) by the end of 1984. But another expressed motive is to reduce government intervention in the economy.

The government's budget deficit, moreover, has become a major constraint on policy. Given a 1985 deficit of ¥11.7 trillion (\$49 billion or 22 percent of expenditures) and projections of rapidly escalating outlays for interest

on past bond issues, government policy is increasingly focusing on allocating scarce funds rather than dividing up rapidly expanding revenue windfalls (as was the case a decade ago). The only two budget categories that have been growing are defense and foreign aid, primarily because of external pressures.

The budget deficit, moreover, declines less in response to growth in GNP than in other nations, because of Japan's lower outlays for unemployment compensation and welfare expenses. Large increases in exports, moreover, have not resulted in a comparable increase in tax revenues, which depend primarily on personal income and domestic consumption. The constraints imposed by the budget deficit have kept the government from adopting a more stimulative fiscal policy in order to encourage imports and reduce their trade surplus. It also precludes direct subsidies to protected industries in exchange for import liberalization.

Moreover, Japan is no longer unified on the direction of the economy. Better housing, more leisure time and a low rate of inflation are becoming as important to consumers as rapid economic growth. Within the government, MITI is at loggerheads with the Ministry of Agriculture, Forestry, and Fisheries over the extent to which imports of beef and citrus products should be liberalized. When the market opening package was being drafted in 1985, Prime Minister Yasuhiro Nakasone pushed for the inclusion of imports of some agricultural products to ease international tensions. Some members of his Liberal Democratic party, however, refused to budge on the issue. In the end, they prevailed.¹⁶

Although the stereotype of Japan, Inc., still holds in terms of defining the major actors in Japan's system of national decisionmaking, objectives are not unified. And the process of hammering out national goals and specifying policies is gradually shifting from the bureaucrats in the ministries, whose major interests have been to foster the growth of the industries under their jurisdiction, to politicians, who are subject to the same pressures from interest groups as politicians in other advanced nations.

MOVING UP THE HIGH-TECHNOLOGY LADDER

Japanese often emphasize stability in employment as one of the strengths of their economy. But they also pride themselves on their ability to undergo rapid structural change without large economic disruptions. In rural Nagano prefecture, for example, factories that once made watches now turn out computer printers. Japanese once working in steel mills or shipyards now use their skills to

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¹³Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982), pp. 310–319.

¹⁴Interviews by the author with MITI officials and business executives in Japan in 1983 and 1985.

¹⁵Jimmy W. Wheeler et al., *Japanese Industrial Development Policies in the 1980s* (New York: Hudson Institute, 1982), p. 6.

¹⁶Interviews by the author with members of the Diet in August, 1985.

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"On balance, the Japanese technology trade statistics are far less impressive than other numerical indicators of Japan's technological standing. In 1983, the Japanese still paid nearly three and a half times as much to buy technology as they received for technology they sold."

Japanese Technology at a Turning Point

BY LEONARD H. LYNN

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EXPO '85 at Tsukuba was a stunning assertion of Japan's technological strength. Although the exposition was international, the lines were longest at the Japanese pavilions. The foreign pavilions offered much less in the way of technological spectacles. And, apart from the robots, new computerized communications systems and new food-growing technologies, Expo '85 presented samples from the past that belied the image of Japan as a nation of copiers. One exhibit, for example, showed a Japanese-built 1924 television receiver that was said to be the world's first commercially feasible model.

Some foreign magazines seized the occasion to publish special issues on Japanese technology. A writer for *Omni*, the popular American science/technology magazine, began his piece by noting that: "Everyone knows of Japan's affinity for high technology." Another writer in the same issue argued that the Japanese have a deep-rooted cultural compatibility with technology.¹ The English magazine *New Scientist* described several areas where the Japanese appear to be moving inexorably into positions of world domination.²

And yet, there are those who point to serious weaknesses in the foundations of Japanese technology. The Japanese Science and Technology Agency's annual white paper released early in 1985 pointed to the relatively few publications by Japanese researchers on such new technologies as computers, new materials and biotechnology. Japan continues to be a large net importer of technology and the image persists (even in Japan) that the Japanese as a people are better able to copy than to create technology.

Japan's growing commitment to new technology has

¹See Doug Garr, "Mind," *Omni* (June, 1985), p. 6. and, in the same issue, Hisako Matsubara, "First Word," p. 34.

²*New Scientist*, March 21, 1985. Subsequent issues also included articles on Japanese research.

³Except where otherwise noted, the statistics given in this section are from Science and Technology Agency, *Indicators of Science and Technology* (Tokyo: Science and Technology Agency, 1965 to 1984).

⁴In 1981, the ratio of civilian R and D expenditures to gross national product was an estimated 2.3 percent in Japan compared to 1.69 percent in the United States. Of course, some of the United States spending does have civilian spillovers and some of it may be directly comparable to government-sponsored programs in Japan. See United States National Science Board, *Science Indicators: 1982* (Washington, D.C.: National Science Foundation, 1983) pp. 197-198.

been reflected in huge increases both in research spending and in the number of scientists and engineers in research over the past two decades. The results of this commitment are apparent in rapidly growing numbers of patents and overseas sales of technology. More and more Japanese managers believe that their firms have equaled or surpassed the technological level of their American rivals. Despite this, however, many Japanese feel uneasy because their country continues to spend so much more to purchase foreign technology than it receives for the sale of its own technology. And some of the managers who are so confident about the level of their technology have far less confidence in the ability of their companies to create new technologies.

In 1965, the Japanese spent less than 6 percent of what the United States spent on research and development (R and D), only about half as much as the British, and far less than either the French or the West Germans.³ Nonetheless, within 5 years the Japanese had passed the British and French in research spending and within 15 years they had passed the West Germans. Japan's lead over these countries has continued to widen. Official statistics show that the United States still spends about three times as much on research as Japan, but a movement in exchange rates to a rate more accurately reflecting purchasing power would eliminate some of the apparent United States edge.

Beyond this, the United States has roughly twice Japan's population and a correspondingly larger economy. A comparison of R and D spending as a percentage of gross national product shows that the United States had only a slight lead in 1983, spending 2.65 percent of its gross national product (GNP) on research compared to 2.33 percent for Japan. Since the United States includes spending on research in the social sciences and humanities in its statistics, while Japan does not, and since some United States spending is defense-related (with little spillover value for the civilian economy), it may well be that for all practical purposes the Japanese have already eliminated any American advantage in research and development spending.⁴

A parallel trend can be seen in the number of scientists and engineers engaged in research in Japan. In 1965, there were about 25 Japanese researchers for every 10,000 members of the work force, while the United States had more than 64 researchers for every 10,000 in the work

force. By 1981, the Japanese ratio had jumped above 65.6, while the United States ratio had edged down slightly, to 62.4. There is still a gap in favor of the United States. As in the comparisons of spending, however, the United States figures include social scientists while the Japanese do not, and many of the United States researchers are engaged in defense-related research with few civilian applications.⁵

What are the fruits of the increased Japanese commitment to research? By one measure of technological output, numbers of patents, the Japanese have made extraordinary progress. In 1966, the Japanese were granted 1,122 patents in the United States, less than one-fourth the 4,683 patents granted to Americans in Japan. By 1982, the last year for which data are available, the Japanese had a substantial lead by this measure, receiving 8,149 United States patents while Americans received only 4,101 Japanese patents. In 1966, the West Germans, the English and the French all received more United States patents than the Japanese. Since 1975, the Japanese have led all other nations in the number of United States patents received. Indeed, in 1982 they received more than one-third of all the patents granted to foreigners in the United States. During these same years, the number of patents the Japanese patent office issued also increased rapidly. In 1965, the Japanese patent office issued about as many patents as the United States patent office. By the early 1980's, it was issuing roughly twice as many. This does not mean that the Japanese are now producing twice as much technology as the Americans. The Japanese tend to patent their technology more intensively than Americans do, but the figures are still suggestive of a difference in trends in the two countries.⁶

Along with their stepped-up commitment to the development of new technology and their rush to patent it, the Japanese have made substantial progress in selling their technology abroad. The Japanese Iron and Steel Institute's annual review of technological progress in the steel industry in 1962 proudly reported that technical assistance was being supplied to a Brazilian steelmaker. Japan was exporting steelmaking technology, but not much, and not to an advanced industrial country. The

⁵Ibid., p. 193.

⁶The two patent systems are basically similar in terms of their rationales, the scope of the patents they issue, the conditions of patentability and the rights of patentability. See Marus Finnegan, Koe Yoyosaki and David Conlin, "A Comparative Study of the Patent Laws of the United States and Japan," in Teruo Doi and Warren Shattuck, *Patent and Know-how Licensing in Japan and the United States* (Seattle: University of Washington Press, 1977), pp. 3-29. The Japanese may patent more heavily because the costs of patenting are lower in Japan than in the United States.

⁷Science and Technology Agency, *Gaikoku Gijutsu Dohnyu*, 983 (Tokyo: Science and Technology Agency, 1985), p. 51.

⁸Many of these "technology introduction" agreements were for trademarks and others were for duplicate technologies being brought in by competing firms. A much more detailed analysis would have to be made before an unambiguous description of trends could be made.

1962 review also described some 36 major agreements to import steelmaking technologies. By 1966, the Institute could list as many as half a dozen contracts in its annual review, including one to a major American firm. And by the early 1970's, between 10 and 15 export contracts were being listed each year. Japanese steelmakers were beginning to claim that their technology led the world. By the mid-1970's, between 50 and 100 major contracts were signed each year to export steel-related technology, many with leading American and European firms.

TRENDS IN TECHNOLOGY TRADE

The case of steel illustrates several trends in Japan's technology trade. The Japanese did not export much technology in the 1950's and early 1960's. Indeed, it was not until 1960 that Japanese receipts for technology exports reached \$1 million. There was rapid growth from this tiny base, however, and Japan's sales of technology reached \$59 million in 1970 (compared to some \$2 billion worth of technology exported by the United States), \$378 million in sales in 1980 (compared to about \$6.5 billion in exports by the United States) and \$624 million in 1983.⁷ While Japanese receipts for the sale of technology are still less than one-tenth those of the United States and only about one-half those of Great Britain, the Japanese passed both France and West Germany in receipts for the sale of technology in 1982. In 1984, nearly 2,500 contracts to export technology were signed by Japanese firms. The advancing sophistication of Japanese technology is also shown in the shift in the market for Japanese technology from less developed countries to more advanced countries. Indeed, the United States now accounts for about 20 percent of Japan's technology exports.

Other Japanese industries have not been nearly so successful as steel in developing technology to sell overseas. Steel is Japan's biggest earner of technology payments. Indeed, with the electrical machinery, chemical and transport equipment industries it accounts for over half of all Japan's technology exports. And, except for steel, all these industries still pay more for the technology they buy abroad than they receive for the technology they sell.

A decade ago, many observers thought that Japan was quickly attaining technological self-sufficiency. The number of new agreements to import technology dropped from 2,450 in 1973 to 1,836 in 1975. This indication of growing self-sufficiency was undercut as the Japanese again signed more than 2,000 agreements to import technology in 1978 and some 2,212 agreements in 1983.⁸ This might suggest the continuing dependence of the Japanese on foreign technology. However, it may be more suggestive of the strong continuing ability of the Japanese to use foreign technology while they struggle to increase their ability to create their own new technology.

On balance, Japan's technology trade statistics are far less impressive than other numerical indicators of Japan's technological standing. In 1983, the Japanese still paid

nearly three and a half times as much as to buy technology as they received for technology they sold. This was some improvement over 1970, when they paid seven and a half times as much as they received, but the statistics provide a strong indicator of continuing Japanese dependence on foreign technology. The United States, in contrast, received nearly 10 times as much as it paid for technology in 1970 and nearly 14 times as much in 1983.⁹

While Japan continues to import a great deal of foreign technology, the Japanese have a growing sense that the level of technology in Japanese industries compares very well with the level in other countries. In 1982, the Ministry of International Trade and Industry (MITI) published the results of a survey that asked Japanese technical workers in various industries to evaluate the level of their technology compared to that of their major foreign (primarily United States) competitors. The study focused on 186 "key" technologies in R and D-intensive industries that were highly dependent on exports. The Japanese believed that they held the lead in 54 technologies, the Americans in 72. The two countries were considered to be about equal in 60 other technologies.¹⁰

A survey by the Japan Economic Planning Agency in January, 1985, suggests that Japanese managers now believe that they lead the United States. Twenty-five percent of the respondents said their technology was superior to that of their American rivals while only 11 percent believed it was inferior. Nearly one-third of the respondents believed they would be ahead of the United States by 1990. Almost none thought they would be behind.¹¹

Despite this confidence in the level of their current technology, however, many Japanese have doubts about their own creativity. The representatives of firms surveyed by the Science and Technology Agency thought that their firms lagged behind their American and European competitors in the ability to create new technology. When asked for reasons for this feeling of inferiority, the

⁹These numbers are only roughly indicative, since practices for compiling statistics differ between countries and even over time. The United States, for example, included film exports among its technology exports in 1983.

¹⁰In the case of Europe, the Japanese rated themselves as superior in 63 of 165 technologies, equal in 72 and inferior in only 30. See Agency for Industrial Science and Technology, *Wagakuni sangyo gijutsu no kokusai hikaku* (Tokyo: MITI, 1982).

¹¹"One-Fourth of Companies Say They Lead U.S. Firms," *Japan Economic Journal*, vol. 23, no. 1157 (May 4, 1985), p. 1.

¹²"Towards the Creation of New Technology for the 21st Century," *Science and Technology in Japan*, vol. 4, no. 14 (April/June, 1985), pp. 25-35.

¹³Some of the earlier efforts at institutional redesign to improve creativity are described in Leonard Lynn, "Japanese Technology: Successes and Strategies," *Current History*, November, 1983, pp. 366-370, 390. More recent information appears in Jonathan Joseph and Alan Hall, "Japan Focuses on Basic Research to Close the Creativity Gap," *Business Week*, February 25, 1985, pp. 94-96.

¹⁴Lewis Simons, "Echoing Footsteps in Tsukuba Science City," *Smithsonian*, April, 1985, pp. 158-162.

managers most often mentioned the inadequacy of corporate basic research departments, a shortage of researchers, and inadequate spending on research and development. Japanese firms are moving quickly to build new R and D facilities; the number of researchers is rising at a fast pace; and spending has been shooting up. Thus it might be expected that these problems are well on their way to solution. Still, about one-sixth of those who thought that the Japanese ability to create new technology was lagging behind the West seemed pessimistic about the efficacy of these developments. They believed that the problem was the "inferior creative capacity of researchers" in Japan.¹²

CREATING "SILICON VALLEYS"

Policymakers in Japan continue to address the "problem of creativity." One area of current discussion is reform of the educational system, partly in response to a widespread belief that the current system stifles creativity. Business firms have been building new facilities for basic research at a very rapid rate in the past two or three years.¹³

The Japanese have long been impressed by the United States ability to mesh the activities of government, universities and business to produce new technologies. Some of this coordinated research in the United States stems from the existence of high technology regions like those surrounding Stanford University and the Massachusetts Institute of Technology. The Japanese have attempted to create similar areas in their own country through a variety of policies at the local and the national level. The Tsukuba Science City, site of Expo '85, represents one such effort. The "technopolis" program is another.

The Tsukuba Science City was built around a cluster of small communities some 60 kilometers from Tokyo. The idea was to move a university and government laboratories to the area in the hope that industry would follow with its own research installations. Today, not quite 20 years since construction was begun on the new city, it is difficult (and perhaps still premature) to evaluate the success of this experiment. One American writer notes that the streets are empty, that only a few private firms have moved there and that, although 200,000 people ought to live there by now, the actual population is only about 140,000 (including 109,000 farmers and others who lived there before the creation of the "new" city).¹⁴ While Tsukuba is unquestionably quiet (some of those who moved there quickly became disenchanted and moved back to Tokyo), there are improvements in the livability of the city year by year (more shops and restaurants, for example) and today Tsukuba boasts of some 52 research institutes and two universities.

The "technopolis" program, initiated in the early 1980's, was intended in part to foster the type of R and D requiring close contact between research and production. It was also intended to stimulate large-scale creative research that might be carried out in "science parks"

formed by the collaboration of research laboratories from various industries, joint research associations and universities.¹⁵

If all goes well, the technopolises will become regional centers of research and industrial production in such disparate fields as electronics, electromechanical engineering, new materials, design/fashion, computer software and biotechnology. The local areas are to make themselves more attractive to high-tech industries by upgrading local academic, cultural, research and housing facilities. The national government is to help the designated technopolises and to offer a variety of tax breaks, special loans, subsidies and other incentives to firms that want to build facilities in a designated technopolis.¹⁶

Since the program is still relatively new, it is difficult to judge its success. Clearly, some of MITI's earlier ambitions for the technopolises have had to be scaled back. *The Economist* concludes from this that the program has become nothing more than a "buzzword."¹⁷ Ezra Vogel notes that the project had to be scaled down because of Japan's budgeting difficulties, but he argues that the idea is still flourishing.¹⁸ This view is shared by reporters from the *New Scientist*, who visited one of the technopolises in the spring of 1985.¹⁹

Skeptics can point out that schemes for regional development in Japan have failed in the past because of political pressures. The "New Industrial Cities Promotion Law" of 1962, for example, tried to decentralize industry by providing government assistance to designated "new industrial" areas. Fifteen areas were chosen as new industrial centers, but the government yielded to political pressure and designated an additional six areas to receive aid. With the addition of the six "New Industrial Cities" (which were in fact old industrial cities), nearly one-fifth of Japan was designated for "special" assistance.

¹⁵Kenichi Imai, *Japan's Industrial Policy for High Technology Industries*, Discussion Paper no. 119 (Tokyo: Hitotsubashi University, Institute of Business Research, 1984), p. 35.

¹⁶"Technopolis Program Gets Underway in 14 Areas Throughout the Nation," *The Japan Economic Journal*, March 6, 1984, p. 4.

¹⁷"Low Tech Island," *The Economist* (London), July 27, 1985, p. 67.

¹⁸Ezra Vogel, *Comeback* (New York: Simon and Schuster, 1985), pp. 120-122.

¹⁹"Local Government Encourages Advance Technology," *New Scientist*, March 21, 1985, p. 41.

²⁰Jeffrey Broadbent, "National Planning as Ideology in Japan" (Paper presented at Middle Atlantic Region, Association of Asian Studies, Princeton University, November, 1984).

²¹"Low-Tech Island," p. 67.

²²"Local Government Encourages Advanced Technology," *New Scientist*, March 21, 1985, p. 41.

²³*JEI Report*, no. 37A, September 28, 1984, p. 3.

²⁴For two serious and detailed recent analyses of the Japanese electronics industries see Daniel Okimoto, Takuo Sugano, and Franklin Weinstein, eds., *Competitive Edge: The Semiconductor Industry in the U.S. and Japan* (Stanford: Stanford University Press, 1984), and Gene Gregory, *Japanese Electronics Technology: Enterprise and Innovation* (Tokyo: The Japan Times Press, 1985).

As a result, there was little decentralization of industry.²⁰ A similar fate may await the technopolis program. *The Economist* says that MITI hoped to screen applicants carefully but was unable to resist political pressure from the 14 applicants and finally accepted them all.²¹

However, there are perhaps critical differences between the technopolis program and its ill-fated predecessor. The technopolis program relies far more on the initiative of the local areas. The Kumamoto Foundation in Kyushu, for example, raised some 4.2 billion yen—half of it from local industries—to promote a local technopolis.²² More generally, proposals for the technopolises in Kyushu reportedly spurred drives based on local money to upgrade regional airports, extend highways and conduct promotion drives to attract investors both from Japan and from other countries.²³

EXAMPLES OF HIGH TECHNOLOGY

How well are the Japanese doing in the technologies that underlie what may be the industries of the future? Much has been written about Japan's strength in electronics and computers. This is an area where the Japanese are finally being taken seriously. One recent article in a business publication noted that at the 1985 International Solid State Circuits conference in New York, the Japanese wrote 49 of the 109 papers presented. And a Japanese researcher was quoted as saying that those 49 included the most interesting papers presented at the conference. Another article noted that the Japanese are now attempting to extend their lead in advanced memory chips. Still another pointed to the strength of the Japanese as competitors in the race to develop the first ballistic transistor.²⁴

Another area that seems to illustrate the emerging strength of Japanese technology is biotechnology. In 1984, the United States Office of Technology Assessment published a report concluding that Japan was likely to be the leading competitor of the United States in commercial biotechnology. This conclusion was based less on the current strength of Japanese research than on two factors that appear to give Japanese industry tremendous potential in commercializing the new technology. First, Japanese firms have long brewed soy sauce and rice wine and produced other food products that relied on "traditional" biotechnology. Many of these firms are now multinational giants with state-of-the-art facilities. Their experience should give them immense advantages in exploiting the newly evolving biotechnology.

Second, the Japanese government has been showing

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"The current move to find ways to introduce more flexibility into the Japanese educational system . . . indicates a desire to eliminate the disadvantages of the old-style differentiated system, wherein children were tracked into different kinds of schools, with almost no opportunity to change tracks."

Education in Japan

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and

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JAPANESE education is gaining increasing recognition in the United States because of the outstanding performance of Japanese schoolchildren in international tests of academic achievement and because of education's role in the development of Japan's highly motivated and adaptable labor force.¹ But beneath the surface of Japan's newly affluent society of the 1980's is a strong undercurrent of dissatisfaction with the state of formal education.²

This undercurrent has been expressed in several popular movies in the last few years. One of them is the 1983 film *Family Game*, which treats the spiritual emptiness of contemporary family and school life as a black comedy. A middle-class family undergoes comical turmoil and suffering when a tutor (who attends a second-rate university) is hired to help the younger son improve his middle school grades (he ranks ninth from the bottom of his class) so he can graduate to one of the "better" high schools. The boy would rather be the top student of a low-prestige high school than be at the bottom in a top-ranked school. The tutor succeeds; the boy improves his grades and gains admission to the higher prestige school. But the boy's major learning from this "education" is that he enjoys the envy of his classmates when he outdoes them on his test scores.

Another film, *Typhoon Club*, made in 1984, deals with the lack of a strong sense of vision and commitment in today's Japan and its effect on a group of middle school students. Tense because of coming high school entrance examinations, these students express boredom and rage through vandalism, aggression and suicide. Both movies won top honors: *Family Game* was voted the "best film" of 1983 by Japan's prestigious *Kinema Jumbo* magazine; *Typhoon Club* won the Young Director's First Prize at the newly inaugurated Tokyo Film Festival in 1985.

Newspaper reports of violence by students at the middle school level have been important in stirring Japanese discontent about the state of the nation's schools. In 1983, over 2,000 middle schools (about 13 percent of the total) had police in attendance at the graduation ceremonies in order to deter student violence. There were also reports of increased student violence directed against teachers.³

In 1985, the proportion of middle school graduates who proceeded directly to high school fell for the third consecutive year.⁴ The Ministry of Education reported that the percentage was reduced to 93.8, an impressive figure for most countries in the world, but a decline that causes substantial concern among the Japanese. Conversations with children and parents in the Tokyo area in 1985 indicate that there is much concern about *ijime*, that is, students bullying and teasing other students or students jeering at teachers who make mistakes on the blackboard. In many schools, girls are reported to be using "male" language—a shock to many in a society that has generally believed in strict differences in behavior and speech between the sexes.

In the last four years, there has also been a steady increase in the number of high school dropouts, a phenomenon that was once extremely rare. Many recent dropouts were among the top performers in their classes, and follow-up interviews reveal that they left school because they believed that self-study and guidance from tutors would be more effective than high school education in preparing them for the fateful university entrance examinations. Their actions provide yet another sign of the recent discontent with Japan's educational system.⁵

¹Thomas Rohlen, *Japan's High Schools* (Berkeley: University of California Press, 1984). Sheppard Ransom, "Schooling in Japan," *Education Week*, February 20 and 27, March 6, 1985.

²Since 1975, in the periodic "Poll on Preferences in National Life," the public has consistently ranked public education at or near the bottom relative to 10 other social services. See Economic Planning Agency, ed., *Kokumin Seikatsu Senkodo Chosa* (Tokyo: Ministry of Finance Printing Office, 1984), p. 93.

³Hidenori Fujita, "A Crisis of Legitimacy in Japanese Education: Meritocracy and Cohesiveness" (Paper presented at the annual meeting of the Comparative and International Education Society, Houston, Texas, March 22, 1984).

⁴*Japan Times Weekly*, international edition, vol. 25, no. 35 (August 31, 1985) p. 2.

⁵Kazuyuki Kitamura, "The Decline and Reform of Education in Japan: A Comparative Perspective," chapter 8, in William K. Cummings et al., eds., *Educational Policy in Crisis: Japanese and American Perspectives* (New York: Praeger, 1986).

A skillful political leader, Prime Minister Yasuhiro Nakasone has tapped this strong undercurrent of public discontent. On the eve of the general elections in late 1983, Nakasone announced a seven-point proposal for the reconstruction of Japanese education that would help lead Japan into the twenty-first century:

1. A reconsideration of the basic American-influenced 6-3-3-4 system of formal education established during the occupation period (six years of elementary school followed by three years of middle school, both schools compulsory for all children; with a three-year senior high school; and four years of college in the basic educational ladder).

2. The reform of the entrance examination system for senior high schools, to provide greater flexibility and more alternatives for students.

3. The reform of the system of university entrance examinations that transforms education into a cramming activity whose sole purpose is to win a place in prestigious colleges that lead to higher-level positions.

4. Provision for the inclusion of social service, now neglected, as part of the school curriculum.

5. The promotion of firm relationships between the schools and the local communities, and greater emphasis on aesthetic and ethical aspects of life, and on sports.

6. The internationalization of Japanese universities, fostering increased study of foreign languages, nurturing the development of international understanding, and offering more opportunities for students from other countries to study in Japan.

7. The improvement in the quality of the teaching profession by diversifying teacher selection methods and by recruiting qualified persons from various occupations.

Nakasone's proposals were derived from the work of the Commission on Culture and Education, an unofficial advisory committee that he formed in June, 1983, when the public was alarmed by reports in the mass media about increases in school dropouts, student violence and juvenile delinquency. When he formed his Cabinet in 1982, Nakasone declared that educational reform was one of the priority areas that would be addressed during his administration. In August, 1984, Nakasone established a 25-member Ad Hoc Council on Education to report directly to the Prime Minister's office, bypassing the Central Council for Education, which makes recommendations and advises the Minister of Education. He thus signaled his own concern about the "educational crisis" and indicated his impatience with the educational establishment. This action put Nakasone squarely into the controversy over Japan's educational system. Opposition parties, the left-wing Japan Teachers Union, and even members of the Ministry of Education bureaucracy have been quick to find fault with his Council's suggestions for educational reform.

The Council was chaired by Michio Okamoto, a former president of Kyoto University, and was divided into four committees based on four areas of concern: the future of education; education and society; elementary and sec-

ondary education; and tertiary education. On June 26, 1985, the Council submitted general recommendations on the first area, the future of education.⁶ The report called for the humanization and development of the individuality of students while also providing them with a strong Japanese identity. It called for emphasis on teaching students to think and to express themselves and on the development of creativity, while lessening the emphasis on memorization and on competition for entrance examinations. Basically reaffirming Nakasone's charge to the Council, the report also recommended providing more options in education by diversifying senior high schools and colleges and making university education more available to the handicapped, to students returning from overseas, and to students in the secondary school vocational stream.

The report has been criticized for lacking specifics. Members of the Council were reportedly in disagreement over the details, although they agreed on general principles. One of the few specific recommendations was the creation of new six-year secondary schools (grades 7 through 12), which would coexist with the present middle schools (grades 7 through 9) and high schools (grades 10 through 12). The new schools would enable those students with a clear idea of their academic goals to enjoy uninterrupted and consistent schooling for six years. Some critics argue that the creation of new six-year secondary schools would shift examination hysteria downward to the elementary school level, since students would prepare to enter a single secondary school for a six-year period. Such critics believe that a hierarchy of six-year secondary schools ranked according to prestige would soon emerge, given the nature of Japanese society and culture.

Other specific proposals included the abolition of the national tests for those seeking admission into public colleges, introduction of common tests with scores that could be used freely by both private and public colleges as part of their admissions criteria, and abolition of the rule that students sit for only one public college's entrance examination in any given year.

Prime Minister Nakasone's ambition is to initiate a major revolution in Japanese education. Such a revolution would be the third in a series of major reconstructions of education. Like the two previous comprehensive reforms, Nakasone's plan for education would be linked to two other target areas: administrative reform and the financial reconstruction of the nation.

EARLIER REFORMS

The first revolution in recent Japanese history was the reform that followed the Meiji Restoration in 1868, when Japan instituted a national system of mass education in order to shake off its feudal past and to become a modern industrial and military power that could resist domination by Western colonial nations. A highly centralized system of schools was established under the close scrutiny

⁶Renji Kyoiku Shingikai, *Kyoiku Kaikaku ni kansuru Daiichiji Toshin*. An abridged, unofficial translation of the report is available in three parts; see *Japan Times*, June 27-June 29, 1985.

of the Ministry of Education. Six years of elementary schooling were made compulsory for all children by 1910, when over 98 percent of all children of school age were enrolled in elementary schools.⁷

The second era of fundamental reform occurred after World War II, with the massive overhaul of the educational system fostered by the United States occupation (1945–1952) under General Douglas MacArthur.⁸ The occupation's major goals were to demilitarize and to democratize Japanese society. Although the Japanese economy was in a weakened state immediately after the war, compulsory education was raised to 9 years and included 6 years of elementary school followed by 3 years of middle school. There was thus a massive and successful move to establish more schools to take in a larger proportion of youth. Although high school education was not compulsory, it was also available to all, with almost universal middle school attendance. Enrollments increased as the Japanese economy recovered and expanded and, by 1984, 94 percent of all young Japanese of high school age were in school. In 1950, only about 37 percent of the high-school-age population was enrolled.

Higher education also rapidly expanded after World War II. Only a few Japanese went beyond high school during the occupation period (about 10 percent in 1950), but by 1984 the percentage had increased to 38 percent (most of the increased number of students were enrolled in private colleges and universities).⁹ Economic recovery, an increased opportunity for students to enter higher education, and extremely high retention rates have made the Japanese population one of the most highly educated in the world.

Much of the occupation's reform agenda was guided by United States educational ideals. Americans believed that both elementary and secondary schools should provide a general education, and during the occupation period comprehensive, coeducational high schools that served all youth were established. The occupation also abolished the prestigious Imperial Universities and their feeder schools in order to eliminate elitism. Government universities were established in every prefecture, modeled after American state universities, and the occupation fostered the development of two-year junior colleges, after which graduates could either enter the working world or continue in four-year colleges. These reforms, it was be-

⁷National Institute for Educational Research, *Basic Facts and Figures about the Educational System in Japan* (Tokyo, Japan: The Institute, 1983), p. 70.

⁸The youngest member appointed by Nakasone to the Ad Hoc Council, Professor Shiro Takahashi of Meisei University, is one of Japan's major scholars involved in studying the United States occupation's influence on Japanese education.

⁹Mamoru Tsukada, "A Factual Overview of Japanese and American Education," chapter 5, in Cummings et al., op. cit.

¹⁰Victor Kobayashi, "Japanese and U.S. Curricula Compared," chapter 4, in Cummings et al., op. cit.

¹¹G. Cameron Hurst 3d, "Weaving the Emperor's New Clothes: The Japanese Textbook 'Revision' Controversy," *Universities Field Staff International Reports*, no. 46 (1982).

lieved, would curb the intense prewar competition among students to succeed in entrance examinations for secondary schools and universities.

Before the occupation, high schools had been differentiated so that students who intended to proceed to universities went to one type of secondary school, while those with other intentions went on to other schools, like normal schools and vocational schools. Secondary and tertiary educational institutions were also segregated by sex. Occupation authorities believed that this system reduced equality of opportunity by forcing young people into tracks, because students could not normally transfer from one type of secondary school to another.

Another important area of educational reform was the occupation's attempt to democratize and decentralize the administrative structure of the school system by establishing elected boards of education at the local and prefectural levels. The boards were to have a relatively high degree of autonomy, while the national Ministry of Education's powers would be reduced.

THE DYNAMICS OF JAPANESE EDUCATION

Although the occupation left its stamp on the structure of Japanese education, many reforms were subsequently modified. The central government, which has been almost continuously controlled by Japan's political conservatives, did not approve many of the reforms. Thus in 1956, the government enacted a law that made local and prefectural boards of education appointive rather than elective. In another recentralization trend, the central Ministry of Education regained authority over schools and universities. The government also reasserted its power to review textbooks before they were considered for selection by local school boards. On three occasions since the occupation, the central government has introduced major revisions in the official courses of study that provide the guidelines used by publishers in preparing school texts.

The curriculum developed by the central government is remarkable for the breadth of courses it authorizes. At the primary school level, systematic instruction in music, art, physical education, home economics and industrial arts is required. To implement this curriculum, Japanese children go to school five and one-half days each week for 40 weeks each year, approximately 25 percent more total hours than the average American schoolchild. Nevertheless, both systems devote a comparable number of hours to the core subjects of language arts, mathematics, and science.¹⁰

The various innovations of the central government have encountered careful scrutiny by outside groups. A recent example was the official protest from the Chinese government when Japan's textbook examiners recommended that the phrase "invasion" be revised to read "advance" in describing Japanese aggression against China before World War II.¹¹

However, the most persistent critic of the government's

reforms is the Japan Teachers Union (*Nikkyoso*), a body that once claimed 75 percent of Japan's teachers. The union has been especially forceful in resisting government efforts to erode the teachers' classroom authority and to introduce hierarchy in teacher categorization. The ongoing struggle between the government and the union has stimulated public interest in education, which is certainly one of the main strengths of the system.¹²

The union has been especially firm in the promotion of equal educational opportunity, a principle to which the government is also committed by virtue of its postwar constitution. Thus by a number of standards, Japanese schools are remarkably uniform. In publicly financed compulsory schools, operational expenditures per student vary no more than 20 percent between the wealthiest and the poorest financial districts. Virtually without exception, teachers meet the qualifications of a bachelor's-level education supplemented by several education-related courses. Especially notable in the compulsory schools is the resistance to any form of ability grouping or tracking, because of the belief that these practices result in unequal education.

Another major driving force of the Japanese educational system is the fact that prestigious companies and government bureaus prefer to recruit new employees from a select group of universities. Parents and their children recognize the lifelong advantages of gaining admission to these select universities. The demand for education has led to a steady expansion of upper secondary education so that currently over nine out of every ten high-school-age youth are enrolled in school, a larger proportion than in other advanced societies. Over half of these upper secondary students attend private institutions.

Japan's educationally ambitious young people in collaboration with their parents search relentlessly for advantages in preparation for university entrance examinations. A key element in their strategy is securing entrance to a high school that has an exceptional record in sending graduates to top universities. To augment their chances for admission both to the select high schools and to the select universities, the great majority of young people also participate in a vast informal system of education consisting of private tutors, *juku* (after-hours remedial and enrichment schools), and *yobiko* (university preparatory institutes).

The strong motivation for study among Japanese youth, facilitated by equal educational opportunities in the formal system and supplementary education in the

informal system, helps account for their exceptional performance in international tests of academic achievement. The United States National Commission on Excellence in Education noted that "international comparisons of student achievement, completed a decade ago, reveal that on 19 academic tests, American students were never first or second and, in comparison with other industrialized nations, were last seven times."¹³ In all tests in which Japanese students participated, they scored at or near the top.

The superior achievement of Japanese children was also revealed in the Second International Survey of Mathematics Achievement, conducted during the 1981–1982 school year in 24 nations. In virtually every sub-area of mathematical skills examined, both 13-year-olds and students in their final high school year scored on average either highest or second highest.¹⁴ In contrast, the average scores of American students were usually well below the international mean.

The widespread belief in the importance of educational success in Japan has provided structure and purpose for Japanese youth. In the immediate postwar period, their suicide rate was high, but currently it is lower than the American rate.¹⁵ Japanese rates of juvenile delinquency and crime, even with recent increases, are a fraction of American levels.¹⁶

While outside observers stress these positive features, those who participate in the Japanese school system are not content. Their dissatisfaction has led to several waves of dissent and rebellion since World War II. Especially notable were the *Ampo* struggles of 1959–1960 (which became so violent that United States President Dwight D. Eisenhower's scheduled visit to Japan was called off in 1959) and the university crisis that peaked in 1969–1970 and closed one-third of Japan's campuses. In comparison, the current wave of discontent is modest; and although earlier waves focused primarily on issues of higher education, the focus today is on the school system.

REFLECTIONS ON THE THIRD REFORM

The roots of the current crisis in education in Japan may lie in the fact that today there is less socioeconomic mobility in Japan. Although the occupation abolished the

(Continued on page 432)

¹²See chapter 3, William K. Cummings, *Education and Equality in Japan* (Princeton, NJ: Princeton University Press, 1980).

¹³National Commission on Excellence in Education, *A Nation at Risk: The Imperative for Educational Reform* (Washington, D.C.: U.S. Government Printing Office, 1983).

¹⁴F. Joe Crosswhite et al., *Second International Mathematics Study: Summary Reports for the United States* (Champaign, IL: Stipes Publishing Company, 1985).

¹⁵Tsukada, op. cit.

¹⁶Ibid.

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"Tokyo-Beijing relations have improved because of the growing congruence of economic and political interests between Japan and China. The Chinese leadership's commitment to economic modernization through foreign technical and economic assistance . . . has transformed China into an attractive economic and trading partner for Japan. . . ."

Japan and China in the 1980's

BY HONG N. KIM

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THE signing of two major agreements between Japan and China in 1978—the Sino-Japanese Treaty of Peace and Friendship and the Sino-Japanese Long Term Trade Agreement—ushered in a new era of friendly relations between the two major powers in East Asia.* Japan is currently China's largest trading partner, a principal provider of financial and technical assistance, and a major importer of raw materials and light industrial products from China. Several factors have shaped the bilateral relationship since the signing of the peace treaty in 1978.

Sino-Japanese political relations were cordial after the Sino-Japanese peace treaty was signed in August of that year. The treaty represented a Chinese victory over the Soviet Union in the race to court industrially developed Japan. The signing of the peace treaty was particularly gratifying to the Chinese, because it was the first major treaty successfully concluded by Beijing that contained the "antihegemony" clause. In the wake of the peace treaty, Sino-Japanese relations began to improve. For example, Japan and China agreed to establish regular ministerial meetings to discuss problems of common interest beginning in 1980; the most recent meeting was held in Tokyo on July 30–31, 1985.

In addition, there was a substantial increase in the number of visits between Chinese and Japanese leaders. Chinese leader Deng Xiaoping's trips to Japan in October, 1978, and February, 1979, were followed by Prime Minister Masayoshi Ohira's visit to Beijing in December, 1979. Chinese Prime Minister Hua Guofeng's journey to Tokyo in 1980 and the visit of his successor, Zhao Ziyang, to Japan in May, 1982, were reciprocated by Prime Minister Zenko Suzuki in September, 1982. These leaders were followed more recently by Chinese Communist party General Secretary Hu Yaobang in November, 1983, and Prime Minister Yasuhiro Nakasone in March, 1984. Thus, the officials of both countries have exchanged views on questions of mutual interest and concern.

In the aftermath of the 1978 peace treaty, Beijing's desire to enlist the support of Japan and the United States in coping with the Soviet threat led to a softening of

China's attitude toward the United States–Japan security treaty as well as toward Japan's Self-Defense Forces. Beijing's decision not to renew the Sino-Soviet alliance pact (containing an "anti-Japan" clause) after 1980 was a welcome development for Japan. In addition, the full-fledged normalization of Sino-American diplomatic relations effective January 1, 1979, removed lingering Japanese uneasiness in cultivating close ties with China.

By the beginning of 1980, China and Japan had begun to share common apprehension about the growing Soviet military buildup in Asia. Both Beijing and Tokyo condemned the Soviet invasion of Afghanistan in 1979–1980 and also the Vietnamese occupation of Cambodia in 1979. The growing congruence of Japanese and Chinese political interests was also evident in dealing with Korea. For example, Chinese Prime Minister Hua assured Prime Minister Ohira that North Korea would not invade South Korea at their meetings in December, 1979, and May, 1980. Similar assurances were given to the Japanese by Hua's successors.

However, despite impressive improvements in Sino-Japanese political, economic and cultural relations since 1972, and particularly since the signing of the peace treaty in 1978, Tokyo-Beijing relations have not been devoid of problems. Rather, Japan and China have had their fair share of difficulties, such as the dispute over the Chinese cancellation of contracts with Japanese companies in 1981 and the controversy over Japanese textbook revisions in 1982.

The textbook controversy followed the June, 1982, disclosure that the new textbooks approved by the Japanese Ministry of Education drastically revised passages dealing with the period of Japanese imperial expansion in China. The new textbooks, for example, replaced the word "invasion" with a euphemistic term translated as "advance." In addition, the texts not only downplayed Japanese responsibility in the Rape of Nanjing in 1937, in which an estimated 200,000 Chinese were massacred, but also suggested that the incident might have been provoked by heavy Chinese resistance.

In a series of editorials published in the *Renmin Ribao*, China not only condemned the revisions but also demanded that Japan retract them.¹ In a related move, China lodged a formal protest with Japan on July 26, demanding that the Japanese government take swift mea-

*The author would like to thank the Northeast Asia Council of the Association for Asian Studies for the research travel grant that made this study possible.

¹*Renmin Ribao*, July 24, 1982.

asures to rectify what it called the distortion of facts about Japanese military activities in China in the pre-1945 period. On August 1, Beijing withdrew an invitation extended earlier to Japanese Education Minister Heiji Ogawa to visit China.

The textbook issue was settled diplomatically at least on China's part by September, 1982, when Beijing accepted the Suzuki government's plan of August 26, 1982.² Tokyo promised to move up by one year the date of partial revision of the already authorized textbooks; as a stopgap measure for the interim period, 1983–1984, the textbooks in dispute would be used with newsletters issued by the Education Ministry that would provide supplementary guidelines for classroom teaching. The settlement of the textbook issue, in turn, paved the way for Prime Minister Suzuki's five-day visit to China beginning on September 21, 1982. But although Suzuki's visit served a useful purpose, there were clear indications that Chinese concern over the "revival of Japanese militarism" was not completely dissipated.³

The inauguration of the new government headed by Prime Minister Yasuhiro Nakasone in November, 1982, aroused further uneasiness, because Nakasone's hawkish stance on foreign and defense policies was fairly well known. In the aftermath of Nakasone's visits to Seoul and Washington in January, 1983, China indicated its displeasure at Nakasone's foreign policy, charging that his visits were designed to strengthen the military alliance among Japan, South Korea and the United States. Beijing criticized Nakasone's offer of \$4 billion in economic aid to South Korea and expressed its concern over Nakasone's controversial remarks in Washington that, in case of emergency, Japan would bottle up the Soviet naval vessels in the Sea of Japan by blocking the four straits leading to the Pacific Ocean and making Japan an "unsinkable aircraft carrier."

By the spring of 1983, it was clear that China was counting heavily on Japan for economic aid in carrying out its modernization programs. During his visit to Japan in early April, 1983, Chinese Deputy Prime Minister Yao Yilin requested an additional \$6 billion in low-interest government loans to finance 13 key projects to be built in the next five years. Nakasone promised to cooperate fully with China on the proposed projects.

By the fall of 1983, there were strong indications that the Nakasone government was seeking further improvement in Sino-Japanese relations. Several factors influenced Nakasone's China policy.⁴ First, the development of stable Sino-Japanese relations was regarded not only as desirable for Japan and China, but also as a "cornerstone of peace and stability in Asia." Second, Japan and other Western nations thought it desirable to help China maintain its "open door policy" in connection with the

implementation of its four modernizations programs. Sino-Japanese friendship would also improve Japan's international image, because it would balance Japan's position as a member of the Western bloc with membership in the Asian community.

Furthermore, influential government leaders like Foreign Minister Shintaro Abe were convinced that Japan should try to keep China on the side of the West. The reemergence of a Sino-Soviet alliance would be detrimental to Japan's interests as well as to other Western countries. For all these reasons, the Nakasone government was willing to provide additional economic aid to China beginning in fiscal 1984.

At the fourth Sino-Japanese ministerial conference in Beijing on September 4–7, 1983, a significant change in China's policy toward Japan was reflected in Chinese Foreign Minister Wu Xueqian's statement that there was no disagreement between Tokyo and Beijing on Japan's defense policy. Beijing's mellowing toward Japan should be attributed to a number of factors. Japan's willingness to provide additional economic assistance to China was one factor. The continuing impasse in Sino-Soviet negotiations on the normalization of bilateral relations was another. Last but not least, a noticeable improvement in Sino-American relations in 1983, especially after United States Secretary of Commerce Malcolm's Baldrige's visit to Beijing in May, 1983, undoubtedly helped to soften China's overall attitude toward the West, including Japan.

By the fall of 1983, Tokyo and Beijing were ready to strengthen their mutual ties. Hu Yaobang's visit to Japan in November, 1983, and Nakasone's visit to China in March, 1984 were particularly important. During Hu's visit to Japan, Nakasone endeavored to allay Chinese apprehension about the possibility of a revival of Japanese militarism by reaffirming his government's adherence to the existing Japanese constitution and to a military policy designed strictly for defensive purposes. Hu responded that China was confident Japan would never invade China, even if Japan's defense capability were expanded. Nakasone and Hu agreed to solve any bilateral dispute between Japan and China through peaceful means. To ensure the development of friendly relations between the two countries, they also agreed to establish a "Sino-Japanese Friendship Committee for the 21st Century."

In the wake of the Chinese party leader's visit to Japan, Sino-Japanese relations improved. Hu's endorsement of Japan's strong defense posture reassured the Nakasone government with regard to its defense policy. Furthermore, Japanese leaders appreciated the Chinese willingness to cooperate with Japan for the reduction of tension on the Korean peninsula.

During his four-day visit to China beginning on March 23, 1984, Nakasone promised to cooperate fully with China for China's modernization programs. At the same time, Nakasone and his Chinese counterpart, Prime

²*Yomiuri Shimbun*, August 27, 1982.

³*Asahi Shimbun*, October 8, 1982.

⁴For a detailed analysis, see *Asahi Shimbun*, November 21, 1983.

Minister Zhao Ziyang, agreed that the outbreak of a conflict in Korea should be prevented regardless of who might provoke it. Both leaders also expressed their serious concern over the Soviet military buildup in Asia and agreed to exchange information concerning Soviet military activities, including the deployment of intermediate-range SS-20 missiles in Asia.

Because of Moscow's military buildup in Asia and its military bases on Kunashir and Iturup Islands (two of the disputed Kuril Islands), there is little prospect for a breakthrough in Japanese-Soviet relations in the near future. Tensions between Moscow and Beijing will continue in spite of their mutually professed desire to seek improvement in Sino-Soviet relations.

ECONOMIC RELATIONS

A major breakthrough in Sino-Japanese economic relations came on February 16, 1978, when a long-term Sino-Japanese trade agreement was signed, calling for \$20 billion in two-way trade during 1978-1985. Under the agreement, Japan would increase its oil imports from China from about 7 million tons in 1978 to 15 million tons by 1982, while exporting about \$10-billion worth of industrial plants, equipment and construction materials to China. The trade agreement indicated that Beijing was eager to expand its trade with Japan in its quest for the advanced technology and industrial hardware it needed to upgrade its underdeveloped economy.

Beijing's willingness to conclude the long-term agreement with the Japanese can be attributed to its eagerness to enlist Japan's technological know-how. From Beijing's viewpoint, Japan was also an attractive trading partner: geographic proximity meant low transportation costs. There was also a striking compatibility in the trade patterns of the two countries. Lacking raw materials, Japan exported high-quality capital goods at competitive prices, while China was eager to export primary products and natural resources in exchange for industrial hardware and equipment.

After the signing of the long-term trade agreement in 1978, the Chinese signed contracts with Japanese firms touching virtually every aspect of China's modernization program except military hardware. By the beginning of 1979, Beijing had signed about four dozen contracts involving over \$3.8-billion worth of industrial plants and equipment, including a steel mill to be built at Baoshan near Shanghai with a total annual capacity of 6 million tons. Negotiations were in the offing for additional contracts worth several billions with various Japanese firms.

However, China's inability to increase its oil production affected its plan for the importation of foreign plants. For instance, on February 26, 1979, China called for the suspension of about 30 contracts involving \$2.5 billion with Japanese manufacturers of plant equipment. China's request for the suspension stemmed from Beijing's lack of funds to finance the importation of the industrial plants contracted with Japan, and from Beijing's decision

to reassess the priorities of the projects involved in its ambitious modernization programs.

In order to reactivate the suspended contracts, Japanese manufacturers were willing to work out a more reasonable arrangement for financing the plant exports, and consulted with the Chinese to find a solution to the financing problem. The first loan agreement involving the credits of ¥420 billion (about US\$2 billion) was signed between the Bank of China and the Export-Import (EXIM) Bank of Japan on May 15, 1979. The maximum life of the EXIM Bank loan was set at 15 years with an annual interest of 6.25 percent. Three months later in Tokyo, two commercial short- and medium-term loan agreements totaling \$8 billion were signed between the Bank of China and the Bank of Tokyo, which was representing a consortium of Japanese commercial banks. Both agreements went into effect on August 16, 1979.

In addition to the \$10-billion credits, Beijing requested additional financial assistance from Tokyo for the construction of eight major modernization projects costing \$5.5 billion. The Chinese request was conveyed to the Japanese government during Chinese Deputy Prime Minister Gu Mu's visit to Japan in September, 1979.

During his visit to Beijing in December, 1979, Ohira promised to extend \$1.5 billion in development loans for six of the eight major construction projects Beijing proposed to build between 1979 and 1983. Japan's loans to China would carry an interest rate of 3 percent per annum and would be repayable in 30 years, including a 10-year grace period. They were "untied" loans; China would not be obligated to buy goods from Japan with the credits provided under the agreement.

Japan's massive economic aid notwithstanding, China's ambitious four modernizations programs were scaled down drastically in 1980, because of the lack of capital to finance the construction of expensive industrial projects and the reassessment of China's priorities. By December, 1980, the Chinese government had decided to curtail its capital construction investment by over 30 percent for fiscal 1981. This drastic modification inevitably necessitated a substantial reduction in China's importation of foreign machinery and equipment.

In the spring of 1981, Sino-Japanese relations were strained when China canceled about \$1.5 billion in contracts with Japanese companies for steel and petrochemical plants. The hardest hit major project was the giant Baoshan steel complex. Other key projects were petrochemical plants in Beijing, Nanjing and Shengli. As a result, several Japanese companies faced heavy losses, because they had already manufactured or supplied equipment related to the projects.

When it became clear that the Chinese government would reactivate several canceled projects if it could secure financial support from Japan, the Japanese government decided to approve such financial aid. Initially, China requested \$2.68 billion in new, low-interest, soft

loans to reactivate petrochemical projects in Daqing and Nanjing and to complete the first phase construction of the Baoshan steel complex.⁵

After a series of negotiations between Tokyo and Beijing, Japan agreed to extend a ¥300-billion (\$1.3 billion) financial aid package for China by the beginning of September, 1981. Japan's financial aid package enabled Beijing to push ahead with the first-phase construction plan for the Baoshan steel complex, setting September, 1985, as the new target date for its completion. The Chinese also settled the nagging problems of financial compensation for those Japanese companies whose contracts were canceled.

In the spring of 1983, China indicated its desire to secure another 5-year development loan from Japan, because the ¥300 billion (or \$1.5 billion) economic aid package (1979–1983) delivered by Prime Minister Ohira in December, 1979, would be exhausted by the end of 1983. When Deputy Prime Minister Yao Yilin visited Japan in early April, 1983, he requested an additional \$6 billion in low-interest government loans to finance 13 key modernization projects to be built in the next five years (three railroads, four ports, two hydroelectric power plants, two mineral mines, one aluminum plant, and one telephone system).

In a visit with Prime Minister Zhao Ziyang, on March 24, 1984, Nakasone promised to provide China with a second economic aid package totaling ¥470 billion (\$2.1 billion) to help finance the construction of 7 of the 13 projects. Meanwhile, the EXIM Bank of Japan has worked out an agreement with the Bank of China concerning additional EXIM Bank credits for the development of coal and petroleum resources. In a memorandum signed on December 13, 1984, the EXIM Bank agreed to provide ¥580 billion (\$2.4 billion) over the next five years to help finance the development of two major coal and four key petroleum exploration projects in China.

In addition to the \$8 billion in short- and medium-term credits offered by a consortium of Japanese commercial banks in 1979, Japanese commercial banks agreed to provide ¥70 billion (\$304 million) in syndicated yen loans to the Bank of China to help finance the construction of the Baoshan and Daqing projects in 1981. Initially, China tended to shy away from the private credits offered by Japanese commercial banks apparently because of the high interest rates attached to such credits.

However, in the summer of 1985, China indicated renewed interest in Japanese commercial credits by sign-

⁵Seiichiro Takagi, "Tai Nichi Kankei," *Chugoku Soran 1982 nen* (Tokyo: Kazankai, 1982), p. 145.

⁶Nitchu Keizai Kyokai, *Chugoku Keizai no Gaikyo to Toshi Kankyo* (Tokyo: Nitchu Keizai Kyokai, 1985), p. 111.

⁷Richard K. Nanto, "Sino-Japanese Trade," in United States Congress, House Committee on Energy and Commerce, Special Committee on Energy and Commerce, *China's Trade Relations with Other Pacific Rim Nations* (Washington, D.C.: U.S. Government Printing Office, 1985).

⁸*Nitchu Keizai Koryu 1984 nen* (Tokyo: Nitchu Keizai Kyokai, 1985), p. 1.

ing a \$2-billion loan agreement with a Japanese consortium headed by the Bank of Tokyo. The credits will be used for the implementation of China's seventh five year plan, 1986 to 1990. The terms of the loan will be for ten years with an interest rate slightly higher than the prevailing interbank loan rate in London (i.e., 8.5 percent).

Chinese financial institutions have also raised a total of ¥65 billion in the Japanese financial market by floating bonds totaling ¥10 billion in January, 1982, ¥5 billion in August, 1983, ¥20 billion in November, 1984, and ¥30 billion in January, 1985. As the number of Sino-Japanese joint ventures increases, more Japanese private commercial credits will probably be used by the Chinese.

Until 1984, Japan's share in China's joint equity ventures was much smaller than that of the United States: amounting to about \$23 million in 22 joint ventures in China by August. The Chinese are obviously interested in attracting more Japanese investment in joint ventures. In 1985, partly because of Beijing's enactment of the "Sino-Foreign Contract Law" and other legislation designed to strengthen the safety of foreign investment in China, and partly because of Tokyo's decision to extend its "foreign investment insurance" for Japanese firms investing in China,⁶ there has been a significant increase in the number of Japanese firms participating in various types of joint ventures. By the number of 1985, over 70 companies were reported to have signed agreements with the Chinese.

TRADE RELATIONS

In fostering close economic and political ties with China, Japan has been trying to develop a potentially massive market for Japanese exports and to diversify its imports, particularly imports of energy and scarce raw materials, to enhance its national security.⁷ Through its judicious use of economic aid, Japan has made significant progress. Sino-Japanese trade has expanded rapidly (e.g., \$13.2 billion in 1984) and Japan is China's largest trading partner; its share constituted about 26 percent of China's total external trade in 1984. Japan sold more sophisticated industrial hardware and technology to China than the rest of the world combined between 1978 and 1984 (over \$6 billion, 52 percent of the total), and it is the largest importer of primary products and raw materials (particularly crude oil and coal) from China.

The volume of Sino-Japanese trade increased rapidly, from \$3.5 billion in 1977 to over \$5 billion in 1978. By 1981, it amounted to over \$10.4 billion. However, when Beijing scaled down its modernization programs and restricted imports while promoting exports after 1980, two-way trade dropped from \$10.4 billion in 1981 to \$8.9 billion in 1982. The total volume of the two-way trade rose to \$10 billion in 1983 and jumped to \$13.2 billion in 1984, the largest amount ever recorded in Sino-Japanese trade. In that year, Japan exported \$7.2-billion worth of goods to China while importing nearly \$6 billion from

The impressive increase in Sino-Japanese trade from 1978 to 1984 is attributable to several factors. First, the increase is related to Beijing's efforts to implement the four modernizations program, which was officially adopted in 1978. In implementing its economic development plan, China has relied heavily on Japanese products and technical know-how; it can expect quick deliveries from Japan at reasonable prices and can depend on relatively favorable financing.

Second, the complementary nature of the two economies contributed to the rapid increase. Japan has been providing China with vital inputs for its industrialization (chemical, steel, machinery and turnkey plants), while purchasing raw materials (minerals, crude oil, coal) and light industrial products (textiles and garments), which it does not have or can no longer produce at low cost.

Another important factor was Japan's decision to extend preferential tariff treatment to Chinese exports to Japan under the General System of Preferences (GSP) adopted in 1980. Under the GSP, many Chinese exports are accorded reduced import duties within certain quota ceilings in Japan. Japan granted China most favored nation (MFN) status in 1974. The Japanese GSP system covers 75 agricultural and marine products as well as all mineral and industrial products except for about 25 items including oil, plywood, and raw silk. Agricultural and marine products are accorded preferential tariffs that are between 10 and 100 percent lower than MFN rates.⁹ Mineral and industrial products generally are without tariffs, except for 48 commodities, the rates for which are set at 50 percent of the MFN rates.

Granting GSP treatment for China in 1980 was significant, because it provided needed relief to China as the Chinese began to experience difficulty in increasing their energy production. Beijing was expected to pay for its imports of technology, machinery and other sophisticated products with exports of crude oil and coal. China's stagnating energy production forced Japan to ease the entry of Chinese manufactured goods, many of which would compete directly with Japanese products.

A final factor in the rapid increase in Sino-Japanese trade was Japanese willingness to make available EXIM Bank credits for China trade and the Japanese government's decision to provide \$8 billion in "soft" loans to China. This financial assistance enabled China to import sophisticated industrial hardware and equipment from Japan.¹⁰ Japan's economic aid also facilitated the development of Chinese energy resources and the construction of infrastructure to facilitate the export of the energy resources.

Thus, Japan not only sells products to China, but

develops the Chinese resources to be exported in order to generate the foreign exchange Beijing needs to buy the Japanese exports. For example, China has proven reserves of over 600 billion tons of coal, and Japan is one of the world's largest buyers of coking and steam coal. Coal imports from China fit into Japan's attempt to diversify its overseas coal supply. Under the 1978 long-term trade agreement, China was to export from 300,000 to 500,000 tons in 1979 to 10 million tons in 1985. Initially, the question was how much coal the Japanese would be willing to buy. An equally important question turned out to be how much the Chinese could supply. In 1983, China exported 3.8 million tons of coal to Japan. The estimate for 1984 is about the same.¹¹

To insure a steady supply, Japan has agreed to assist the Chinese in developing their coal export industry. Japan's EXIM Bank has provided \$940 million in loans to improve seven Chinese coal mines; the loans are to be repaid through coal exports to Japanese customers. In addition, Japan has provided yen credits to assist in developing railroads and ports for coal transportation.

Of course, China depends more on trade with Japan than Japan depends on trade with China. Since the mid-1960's, Sino-Japanese trade includes a significantly larger percentage of Chinese than Japanese trade. In 1984, for example, the bilateral trade comprised about 3 percent of Japan's external trade, while it accounted for about 26 percent of China's. To put it another way, while Japan is China's largest trading partner, China ranks fourth (up from seventh in 1979) in Japan's trade, behind the United States, Saudi Arabia and Indonesia. As a market for Japanese exports, China ranks third, behind the United States and South Korea.¹²

A few basic conclusions can be drawn with regard to recent Japanese-Chinese relations in general and Japan's China policy in particular.

First, Tokyo-Beijing relations have improved because of the growing congruence of economic and political interests between Japan and China. The Chinese leadership's commitment to economic modernization through foreign technical and economic assistance is a clear departure from the Maoist canon of self-reliance that restricted China's economic interaction with other countries.

The change in policy has transformed China into an attractive economic and trade partner for Japan, because Japan can effectively serve as a source of technology and capital for China's modernization programs. Japan's ability to provide high-quality industrial plants and

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⁹Nanto, op. cit., pp. 30-31.

¹⁰For a detailed analysis, see Hong N. Kim, "Recent Sino-Japanese Economic Relations," in *China's Trade Relations with Other Pacific Rim Nations*, pp. 46-64.

¹¹*Nitchu Keizai Koryu 1984 nen*, pp. 136-138.

¹²*Ibid.*, p. 2.

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BOOK REVIEWS

ON JAPAN

BEYOND WAR: JAPAN'S CONCEPT OF COMPREHENSIVE NATIONAL SECURITY. By Robert W. Barnett. (Elmsford, NY: Pergamon Press, 1984. 155 pages, notes, appendixes and index, \$21.00, cloth; \$14.00, paper.)

In 1980, a task force chaired by the former head of Japan's Defense Academy released a government-initiated *Report on Comprehensive National Security*, which examined Japan's global and regional defense role. Barnett has used the report's major findings to elicit the views of 54 Japanese and American government officials, academics and journalists on what Japan's defense role should be. The results offer a new perspective on the differences in Japanese-American perceptions of Japan's defense role. W.W.F.

JAPAN TODAY. By Roger Buckley. (Cambridge: Cambridge University Press, 1985. 139 pages, bibliography, appendix and index, \$24.95, cloth; \$7.95, paper.)

This popular introduction to Japan offers readable surveys of its politics, economy, foreign policy and society. Some of the writing belabors the obvious ("Japan is in the news." "The world is looking eastward."), but the author still succeeds in giving a competent general overview of the country. W.W.F.

EAGLE AGAINST THE SUN: THE AMERICAN WAR WITH JAPAN. By Ronald H. Spector. (New York: The Free Press, 1984. 589 pages, photographs, notes, bibliography and index, \$24.95.)

Spector draws on newly declassified American documents and other source material in this World War II history. The major battles and decisionmakers are adequately covered, with an equal emphasis on the description of actual fighting and the strategy sessions that took place in Japan and the United States. Spector convincingly argues that United States actions in the Pacific theater were a product of bureaucratic infighting and political competition with Britain rather than the results of a carefully planned grand strategy. W.W.F.

STATE AND DIPLOMACY IN EARLY MODERN JAPAN: ASIA IN THE DEVELOPMENT OF THE TOKUGAWA BAKUFU. By Ronald P. Toby. (Princeton: Princeton University Press, 1984. 309 pages, illustrations, notes, glossary, bibliography and index, \$30.00.)

Japan's "opening" to the West in the late nineteenth century is assumed to have been preceded by an "isolationist" Japan under Tokugawa rule. Toby holds that this traditional interpretation of a secluded Japan does not correctly describe Tokugawa Japan; he argues that while external relations were curtailed, there were still

relations between Japan and East Asia, especially Korea, and that these relations were important to the development and legitimation of Tokugawa government. W.W.F.

JAPAN AND WESTERN CIVILIZATION: ESSAYS ON COMPARATIVE CULTURE. By Kuwabara Takeo. Translated by Kano Tsutomu and Patricia Murray. (Tokyo: University of Tokyo Press, 1984. [Distributed by Columbia University Press, New York.] 205 pages, notes and index, \$14.50.)

This is the first translation of Kuwabara's work into English. The essays cover a broad range of topics, from "The Social Effect of Art" to "Japan and European Civilization." Kuwabara's wry sense of humor is evident in two essays on informal experiments he conducted on changing standards of beauty in Japan ("Seven Beauties and the Modernization of Rural Tastes") and Japanese academics' attitudes toward cooperative research. W.W.F.

JAPAN AND THE ASIAN PACIFIC REGION: PROFILE OF CHANGE. By Shibusawa Masahide. (New York: St. Martin's Press, 1984. 196 pages, maps, notes, bibliography and index, \$25.00.)

Written under the auspices of the Royal Institute of International Affairs, *Japan and the Asian Pacific Region* ably reviews the history of Japanese relations with the United States, the Soviet Union, and the Asian Pacific nations (the Koreas, China, Taiwan, Hong Kong, Vietnam and the members of ASEAN). W.W.F.

REBELLION AND DEMOCRACY IN MEIJI JAPAN: A STUDY OF COMMONERS IN THE POPULAR RIGHTS MOVEMENT. By Roger W. Bowen. (Berkeley: University of California Press, 1984. 367 pages, notes, appendixes, glossary and bibliography, \$14.95, paper.)

Bowen examines three clashes between commoners and the government that occurred between 1881 and 1886: the Fukushima Incident, the Kabasan Incident, and the Chichibu Incident. He argues that these three cases show there was an attempt at democratic rule in Japan during this period at the local level. W.W.F.

CONCISE DICTIONARY OF MODERN JAPANESE HISTORY. Compiled by Janet E. Hunter. (Berkeley: University of California Press, 1984. 347 pages, appendixes, glossary and Japanese-English, English-Japanese index, \$32.50, cloth; \$10.95, paper.)

This is an excellent quick-reference source on people, places and events in Japan from 1853 to 1980, with emphasis on the post-1945 period. The alphabetically arranged entries give essential information, cross-

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JAPANESE TECHNOLOGY

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fast-growing interest in biotechnology. Tentative steps were taken to promote the technology in the 1970's; much more has been done since about 1980. Today, several Japanese government agencies are involved: the Science and Technology Agency; the Ministry of International Trade and Industry; the Ministry of Agriculture, Forests and Fisheries; the Ministry of Education and the Ministry of Health and Welfare; and the Environmental Protection Agency.²⁵

The Japanese private sector is also interested in biotechnology. While the Japanese were a little slower than their American rivals, more than 150 firms have reportedly moved into the new industry. Unlike the venture capital firms typical of the United States biotechnology industry, many Japanese firms are well-established giants. Suntory, Ajinomoto, Kirin Beer, Mitsubishi Chemical Industries, Maruzen Oil, Kikkoman and Toray are just a few of these.²⁶ And they have entered the industry with strong confidence in their ability to overcome the United States lead in the commercial development of biotechnology.²⁷ Some firms have opened new research laboratories to work on the technology. Indeed, nearly one-fourth of the 25 or so Japanese industrial research laboratories built in the past two years are working in this field.²⁸

It is still not clear how Japan's biotechnology industry stacks up against United States industry. United States spending remains far higher.²⁹ The Japanese may be having difficulty training enough biotechnology researchers, and institutional barriers have so far made it difficult for Japanese firms to receive as much assistance from Japanese universities as their American counterparts. Indeed, nearly two-thirds of the Japanese biotechnology firms have indicated that they plan to send researchers abroad for training. Some Japanese firms have even sponsored biotechnology research at United States universities.

²⁵United States Congress, Office of Technology Assessment, *Commercial Biotechnology: An International Analysis*, OTA-BA-218 (Washington, D.C.: Office of Technology Assessment, January, 1984). Except where otherwise noted, the information in this section comes from the OTA report.

²⁶Mitsuru Miyata, "Japanese Corporate Biotechnology R and D," *Science and Technology in Japan*, April/June, 1985, pp. 15-20.

²⁷Nearly half the firms responding to a 1981 survey believed that Japan could overcome the United States lead within five years. Nearly one-fourth thought it would only take two or three years. See OTA, *Biotechnology: An International Analysis*, p. 76.

²⁸"Japan Focuses on Basic Research to Close the Creativity Gap," *Business Week*, February, 25, 1985, pp. 94-96.

²⁹One source reports that U.S. spending on industrial R and D in this area may be ten times higher than that of Japan, and that spending is also increasing faster in the United States. See Japan Economic Institute, "Biotechnology in Japan," *JEI Report*, no. 8A (February 24, 1984).

Additionally, Japan's bureaucracy has so far shown little of the single-minded effectiveness in promoting biotechnology that is often imputed to it in other industries. The regulation of research has been far more restrictive than it is in the United States. The potential for bureaucratic infighting as half a dozen major government agencies compete for influence over what is seen as a coming major industry may also cause problems. Such turf battles have recently emerged over computer software (between the Ministry of International Trade and Industry and the Ministry of Education), telecommunications (Ministry of International Trade and Industry and Ministry of Posts and Telecommunications), and space science (Science and Technology Agency, Ministry of Education, and Ministry of Posts and Telecommunications).

EXPO '85 AS A TURNING POINT

Some observers regard the 1964 Olympics in Tokyo as a watershed in terms of the Japanese self-image. Because of their smooth and successful promotion of that event, the Japanese began to convince themselves that Japan was indeed an "advanced" nation. Serious problems with regard to tourist facilities and transportation were worked out with magnificent competence. Moreover, to the self-conscious surprise of the Japanese, foreign visitors seemed impressed by "modern" Japan. Some measure of the Japanese postwar sense of inferiority toward Europe and North America disappeared.

Expo '85 may play a similar role with respect to technology. Symbols of Japanese technological creativity were present in abundance. Indeed, they dazzled when compared to the symbols produced by the United States, the Soviet Union and other countries. Foreign visitors were impressed. In 1985, however, the Japanese did not seem surprised. ■

JAPANESE EDUCATION

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Imperial University system, the higher education system involves a limited number of high-prestige universities populated mostly by graduates of only a few high schools. Graduates of these elite universities tend to obtain the jobs with the most socioeconomic opportunities. In the 1970's, competition for places in the elite schools became much keener, and the competition was limited to a small select group, as the net rate of increase in the number of desirable jobs slowed down.

Professor Ikuro Amano of Tokyo University argues that this "over-structuration" of society has led increasing numbers of Japanese to refuse to join the competition or to reject "the game." The push for reform, then, can be viewed as an attempt to find ways to "cool down" the aspirations of youth in ways that do not disrupt society.¹⁷

The current efforts to diversify schools and to reduce

¹⁷Ikuro Amano, "Educational Crises in Japan," chapter 12, in Cummings et al., op. cit.

uniformity call for a return to the differentiated school system of the pre-occupation period. But the current move to find ways to introduce more flexibility into the Japanese educational system also indicates a desire to eliminate the disadvantages of the old-style differentiated system, wherein children were tracked into different kinds of schools, with almost no opportunity to change tracks.

In the past, the Japanese have frequently discussed the reform of higher level education. The latest discussions took place in 1970–1972 following the university crisis.¹⁸ However, only those discussions that took place during a period of major social transformation, like the postwar occupation, were followed by extensive reform.¹⁹ The present round of discussions is not taking place against a background of epochal change. Nor is it clear that Prime Minister Nakasone's reform committee has a coherent plan. Thus while the discussions of reform are receiving extensive media coverage, many observers are skeptical that significant change will follow. ■

¹⁸Central Council for Education, *Basic Guidelines for the Reform of Education* (Tokyo: Ministry of Education, 1972).

¹⁹Kazuyuki Kitamura, "The 'Big Bang' Theory and Japanese University Reform," *Comparative Education Review*, vol. 16 (June, 1972), pp. 303–325.

JAPAN'S ECONOMY

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assemble automobiles. Between 1965 and 1982, for example, the number of workers employed in the textile industry dropped from 1,327,000 to 665,000, while the number employed in the electric machinery and equipment industry rose from 851,000 to 1,493,000.

The composition of Japan's exports highlights this structural shift. In 1955, cotton textiles were the top export, followed by iron and steel, marine products, clothing, spun rayon fabric and ships. By 1970, iron and steel had become the top exports, followed by ships, automobiles, metal products, radio sets and synthetic textiles. By 1984, automobiles had reached the top of the list, followed by iron and steel, ships, tape recorders, office machinery, optical devices, and semiconductors (with twice the level of synthetic textiles exports).¹⁷

Much of the impetus behind Japan's postwar reindustrialization came from heavy industry—iron and steel, machinery, shipbuilding, mass transportation and construction. These industries had voracious appetites for imported raw materials and were relatively labor-intensive.

Japan's new industries focus on engineering, research and development, microelectronics, and communications. Even the old smokestack industries are taking advantage of advances in robotics, data handling and electronic controls.

This rapid shift in Japanese industry up the high-

technology ladder is driven by three fundamental forces. First is the intense industrial competition—both internal and external. In contrast to the common perception of Japan as a country where firms cooperate to compete against outsiders, domestic firms compete fiercely with each other for market shares. Japanese refer to this phenomenon as overcompetition and they sometimes term participants in this competitive behavior "economic animals."

Each major industry includes many individual firms producing similar products. Japan has 9 major automakers, 15 makers of videocassette recorders, and 11 main-frame computer makers (including 5 affiliates of American manufacturers). The intense competition among these firms propels them along the path of technological change.

The second reason to climb the high-technology ladder is to reduce Japan's vulnerability to foreign supply disruptions in raw materials. One way to decrease dependence on imports of iron ore, for example, is to add more value to the refined metal before shipping it abroad. About 14 tons of iron ore are required to produce \$5,000 worth of exports of raw steel, but only about 1 ton of ore is needed for the body and parts of a \$5,000 car. Less than 100 pounds of iron ore are needed for a \$5,000 computer, and even less for magnetic disks containing \$5,000 worth of computer software.

A major cause of the improvement in Japan's balance of trade, in fact, can be attributed to the faster growth in high-technology exports compared to imports of raw materials. In 1970, for example, exports of motor vehicles, valued at \$1.3 billion, were equivalent to less than half the \$2.7 billion in imports of metal ores and scrap. By 1984, motor vehicle exports, at \$29.8 billion, were more than four times the \$6.6 billion in metal ores and scrap imports.

The third reason for moving up the high-technology ladder has been the rising competition from newly industrializing countries like South Korea, Taiwan and Brazil. This competition began with textiles and toys, but has moved on to industries like iron and steel and shipbuilding, which Japan relied on during its early industrial development. Competition, moreover, is progressing to higher-level products. Japanese automakers are justifiably concerned over South Korea's plans to export the Pony subcompact car to the American market.

Japanese industry, therefore, has been shifting from resource- and labor-intensive manufacturing to knowledge- and design-intensive manufacturing. The Japanese economy has been likened to a multistoried building situated on the edge of the ocean. Beginning with the bottom floors of the building, each floor represents industries that are less and less labor- and resource-intensive. The bottom floor consists of industries like textiles and toys. On progressively higher floors are steel, shipbuilding, electronics, financial services, pharmaceuticals, fine chemicals and telecommunications. As the waves of com-

¹⁷Japan External Trade Organization, *Japan's Trade Finance* (Tokyo: JETRO, 1984), p. 9, and Bank of Japan, *Economic Statistics Monthly* (April, 1985), p. 133.

petition from less-developed countries beat on the building, the lower floors are washed away. Unless a country or industry keeps moving upward to higher and higher floors, it will eventually become uncompetitive.

Japanese wages, moreover, are rising. At \$6.35 per hour for production workers in manufacturing industries, they are still lower than those in other industrialized countries, but they must be compared with \$1.36 an hour in Korea, \$1.60 in Hong Kong, and \$1.70 in Taiwan for labor that also is educated, skilled and motivated.¹⁸

Although wages account for only about 10 percent of the cost of production for most industries, industries in newly developing countries are likely to do to Japan what they have done to other advanced nations—unless they stay ahead in the high-technology race. In 1984, Korea exported nearly \$469-million worth of iron and steel to Japan, while Taiwan sent about \$315-million worth of electrical machinery and equipment there.¹⁹

STAYING AHEAD

The question is how to stay ahead or near the top. In years past, the Japanese could catch up with the leaders in the West or improve existing technology. The videocassette recorder (VCR) is a case in point. The basic technology was known, but the Japanese electrical giants were able to reduce the costs so that individuals could afford to buy VCR's. Today, with the exception of a few producers in Europe and Asia, the Japanese virtually own the world market.

In the future, however, it is doubtful that Japan will be able to monopolize any product so completely as it did the VCR. Once a new product appears, moreover, a firm must work faster and faster to monopolize sales and attempt to recoup the funds it has invested in research and development. When IBM introduced its 4300 model computer in 1979, it took competitors five years to catch up. By 1983, when it introduced its 308X model, competitors were virtually already there.²⁰

In order to recoup high research and development costs and to keep ahead of competitors, firms in advanced nations are forming triads of power that transcend national boundaries. In computers, the top 13 Japanese firms all have links to American and European companies either in the form of joint ventures or agreements to supply original equipment. Fujitsu, for example, has a stake in Amdahl and TRW and has links with Britain's ICL and Germany's Siemens.²¹ In high-technology in-

dustries, therefore, future competition may take place between consortia of firms rather than among countries. Japanese firms are likely to be major actors in these consortia.

PROSPECTS FOR THE FUTURE

In 1985, Japan is no longer an economic miracle worker; it is only another advanced industrial nation that is relatively successful in pursuing economic growth despite severe internal and external constraints. Several of its industries are now enjoying a peak in their competitive power that may last for some time.

Japan's future, however, is clouded somewhat by the rapid aging of its population and the consequent effect of this change on rates of saving and government expenditures. By the year 2000, the percentage of the Japanese population over 65 years old will have risen from the current 10 percent to around 16 percent, the same level as that of Sweden in 1980.²²

When tax revenues were rising rapidly during the years of high inflation in 1972 and 1973, Japan's aged were granted virtually free medical care along with a hefty increase in social security pensions. As the society ages, these expenditures will become a larger and larger burden on the federal budget. Savings rates, moreover, are likely to fall, as relatively few people will be in the economically active population and the elderly use their accumulated savings to support themselves.

The aging of society also affects productivity and the costs of production. Japanese plants have been able to keep costs down by expanding rapidly and hiring young (and cheap) workers. As growth slows and the economy matures, however, the average age of a worker will increase and wage costs will rise.

Despite the aging problem, however, the population is expected to continue to save and invest at rates sufficiently high to maintain growth rates. Even if current personal savings rates (17 percent of disposable personal income) and investment rates (28 percent of GNP) decline, they would still be in a relatively high range for an advanced industrial country.

For the medium term, therefore, the Japanese economy is expected to grow at about 3 percent per year.²³ This would be at the moderately high end of the spectrum for advanced industrial nations and at about the same rate at which the country was growing during the last two decades of the nineteenth century. At this rate, its economy should double in 24 years (rather than in the 7 years it took to double during the 1960's).

Japan, therefore, looks to an economic future of moderately high economic growth, somewhat greater difficulty in controlling its economy, and an industrial sector that is highly competitive but vulnerable to protectionist pressures abroad. Such a prospect is a far cry from the hectic growth of the 1960's. But Japan has arrived as an economic superpower and is beginning to wield the economic influence that is commensurate with that power. ■

¹⁸United States Bureau of Labor Statistics, unpublished data.

¹⁹Japan Tariff Association, *Japan Exports and Imports, Country by Commodity* (December, 1984), pp. 6, 23.

²⁰Kenichi Ohmae, *Triad Power, The Coming Shape of Global Competition* (New York: Free Press, 1985), p. 17.

²¹*Ibid.*, pp. 132–137.

²²Japan Economic Planning Agency, *Japan in the Year 2000* (Tokyo: Japan Times, 1983), pp. 117–147.

²³According to forecasts by the econometric consulting firms of Data Resources, Inc. and Chase Econometrics.

JAPAN'S FOREIGN POLICY

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bling" plan to improve Japan's domestic infrastructure and housing by drawing on the large stock of Japanese savings. One by-product of this policy would be an expansion of domestic demand and a concomitant increase in imports. Despite the positive foreign economic policy implications of the plan, fiscal conservatives and Nakasone are skeptical that it can be implemented without undercutting a balanced budget and administrative reform.

An aspect of Japan's foreign economic policy that deserves greater attention is its policy toward industrializing and developing countries. Nakasone has continued the course of his predecessors by increasing Japan's foreign economic assistance budget. In 1984, Official Development Assistance increased by 14.8 percent over the previous year and reached a disbursement level of \$4.319 billion, making Japan the second largest supplier of ODA after the United States.

Furthermore, Japan has been expanding its aid programs outside the Asia-Pacific region to "strategic" nations like Pakistan, Turkey, Sudan and Egypt. Recently, the government announced plans for a dramatic expansion of assistance to Central American nations, which would support American policy aims in the region. As an instrument of comprehensive national security policy, foreign economic assistance is perhaps more consistent with Japan's pacifist constitution than a military buildup.

In the coming years, however, access to Japanese markets may become a more important factor than economic aid for stable growth in many third world nations. The United States thus far has been the primary market for goods from the newly industrializing countries (NIC's), but American protectionism may change this. Moreover, many American policymakers argue that Japanese trade barriers are diverting NIC goods to the United States market. But Japan must absorb more of these products.

According to the Japan External Trade Organization, the volume of imports from the NIC's is expanding. The Japanese note that imports from the Asian NIC's and the ASEAN countries have increased more rapidly than imports from the industrialized countries. But given the rise of protectionist pressures in Japan against such imports, one can question how long these trends will continue. The Japanese have apparently already pressured some of the NIC's to limit textile exports to Japan.⁹

FUTURE PROSPECTS

Although the foreign policy of the Nakasone government does not mark a sharp break with the past, it exhibits a vitality that was once absent. This activism,

⁹Japan External Trade Organization, *Manufactured Imports of Japan in 1984* (Tokyo, March, 1985); and Bruce Roscoe, "Japan to the Barricades," *Far Eastern Economic Review*, September 12, 1985, pp. 87-89.

inspired by national confidence and a commitment to democratic principles, has reinforced the goals of American foreign policy. The decline of United States hegemony has not weakened the Pacific alliance. United States-Japanese cooperation on security matters is greater than ever, and Japan is aiding the United States to cope with the Soviet threat. But how long will this situation last?

Japanese cooperation and its contribution to the Western alliance in this period of United States hegemonic decline require that Japan be allowed a greater voice in the alliance and that American unilateralism be restrained. The Japanese may disagree with the Americans on specific issues, but disagreements should be interpreted as a sign of alliance strength. In fact, a Japan that displays greater initiative and less passivity may help to develop and promote a more effective alliance strategy than one formulated solely by the United States.

The greatest shortcoming of Nakasone's foreign policy is in the area of economics. Despite his public relations efforts and action programs, trade frictions have worsened during his tenure. If, as a result, economic and security issues become negatively linked in the United States, Americans may refuse to spend so much for Japan's defense. For their part, the Japanese may sense a decline in the credibility of the American security guarantee. They may then choose a more neutralist and independent course. In short, events overseas rather than domestic developments may drastically alter Japan's foreign policy. ■

JAPANESE-AMERICAN ECONOMIC RELATIONS

(Continued from page 408)

United States sales of tobacco in Japan, life and fire insurance in South Korea, and computers and related products in Brazil. He has also ordered the "acceleration" of current efforts to open Japanese markets to United States leather goods and to challenge Europe's canned fruit subsidies, setting a December 1 deadline for these two cases.

Will this move defuse congressional protectionist sentiment? An answer to this question will depend on how much Japan and the other countries can cooperate in rectifying their "unfair" trading practices and how effectively the Reagan administration can retaliate in the absence of such cooperation. It will also depend on other new trade initiatives on the part of the administration. Needless to say, it is in Japan's interest to cooperate with the United States to prevent the enactment of anti-Japanese, protectionist legislation.

But as we have seen so often in the past, Japan and the United States may disagree again about what is fair and unfair, thereby exacerbating the already tense situation. What should be avoided by all means is more protracted negotiation. Japanese officials must understand the very

difficult position of the Reagan administration vis-à-vis Congress and help it preserve its leadership in United States trade policymaking, instead of reacting emotionally and nationalistically. In short, Japan would do well to make short-term sacrifices and agree to United States terms.

Apart from cooperating with United States 301 investigations, Japan should initiate its own tension-reducing actions. It should implement the Action Program on trade announced this summer, and it may have to make further market-opening initiatives on their own merits based on a longer-term perspective. Japan should also make more serious efforts to expand domestic demand by reducing taxes and increasing public and housing investments.* And in order to help the governments of the industrialized countries go on the offensive in fighting domestic protectionism, Japan should play an even more active role in promoting the new round of multilateral trade negotiations, working closely with the United States.

Similarly, Japan should take the initiative in putting the problem of exchange rates on the agenda of the next summit meeting of the industrialized countries and on the agenda of other international conferences of the major trading nations.¹⁵ Of course, in the short run these actions will not help narrow the trade imbalance between the two countries, but they may help strengthen a new image of Japan, a Japan more willing to undertake responsibilities commensurate with its economic power. In order to buy time before the congressional elections of 1986, Japan may also have to make emergency purchases of some big items from the United States, including satellites, supercomputers and telecommunications equipment.

As more Japanese have finally come to understand the seriousness of the "political reality" in Washington, many alternative suggestions have been made, including restricting Japanese capital outflow and combining export tariffs and import subsidies. While the bold and unconventional nature of these suggestions may be commended, they go against the policy of market liberalization and free trade. However, serious debate about the current crisis has begun in both countries. One only hopes it is not too late. ■

*Editor's note: In October, 1985, the government released the details of a plan to stimulate the domestic economy. The plan included a \$23-billion low-interest housing loan program and the sale of public lands for real estate development. The government expected the program to increase GNP by 1.3 percent in 1985. See *The New York Times*, October 15, 1985, p. A1, and *The Wall Street Journal*, October 15, 1985, p. 33.

¹⁵Prime Minister Nakasone himself is interested in this idea. Senator Bill Bradley (D., N.J.) and Representative Jack Kemp (R., N.Y.) have proposed an international monetary conference to discuss the exchange rate problem.

JAPANESE POLITICS

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economic and social vitality. They also believe in a strong

enlightened leadership, presumably to remove obstacles to free competition from both domestic and world markets as well as to shrink the size of the government before the whole system collapses.¹⁸

In many respects, Nakasone's policies resemble those of the new American and British conservatism. Nakasone's popularity may be explained at least in part in terms of Japan's ideological swing to the right in line with the general swing in the industrialized capitalist world.¹⁹ The Prime Minister's image as an activist "world" leader who can chat casually with "Ron" and debate with French businessmen has pleased those who want to see Japan independent and assertive. Nakasone's popularity may also be inspired by the public perception of his direct-to-the-public tactics as a sincere attempt to overcome the immobilism imposed by the entrenched bureaucracy.

However, in spite of a series of "dramatic" market-opening measures, trade friction has worsened. Despite the post-oil-crisis chorus of domestic demand expansion, the rate of the Japanese economy's export dependence has grown steadily from less than 10 percent during the 1965–1975 period to almost 20 percent, while the share of the United States in Japan's total export has increased from 20 percent in 1980 to 35 percent in 1984. In 1984, some two-thirds of Japan's export earnings have returned to the United States, mainly as investments in government bonds to finance the United States budget deficit.²⁰ From the United States viewpoint, Japan is profiting twice, by selling products and lending the profit. This may make sense to Japanese business, international banks and others making money in the process. As the average working Japanese see it, however, both the products of their labor and their savings are being used by foreigners without improving their own quality of life. Why is this?

The first reason is the inertia of a vicious cycle that explains both the tenacity of trade friction and the slow improvement in the quality of life for the working Japanese. The Japanese save more than 20 percent of their disposable income, mainly in order to prepare for old age, sickness, housing or their children's education. This is because of Japan's inadequate social security, high housing and land prices, and the Japanese preoccupation with *gakureki* (school records). Until recently, however, money saved has been spent not on improving this situation but on productive investment in promising export industries.

Thus economic recovery and expansion in 1983–1984

¹⁸It warned of the danger that Japan would lose vitality as a result of affluence, particularly because of the growing egoism manifested in the labor and antipollution movement, and it advocated elitism based on a "spiritual aristocracy." "Tenki," *Mainichi*, part 1, no. 13 (1985).

¹⁹Author's interview with Kinhide Mushakoji, New Orleans, August 30, 1985.

²⁰*The New York Times*, March 11, 1985; *The Economist* (London), March 2, 1985.

was led by and skewed to export industries. The result is polarization between the prosperous export-oriented sectors and the depressed domestic demand-dependent sectors comprised of mainly small and medium firms (as seen in growing bankruptcies in the latter). A dual economic structure persists, with a 20 percent wage difference between the big and the medium/small businesses (with less than 300 employees); the latter account for 81 percent of the labor force.

Japan's surplus capital in 1984 had resulted from relatively slow domestic investment growth (around 8 percent) and high profits (up by 25-30 percent). After the sweeping deregulation of Japan's banking rules in response to the urging of the United States Treasury Department in May, 1984, Japan began investing this surplus abroad, particularly in United States bonds. The outflow represented corporate profits and consumer savings. Japan has thus emerged as the world's largest creditor, with \$50 billion in net exports of long-term capital. This movement of capital keeps the dollar high and gives a price advantage to Japanese exports to the United States.

This cycle also sows the seeds for instability in Japan's domestic economy. Why must Japan's plywood industry, which has not invaded the United States or the West European market, suffer because of the trade surplus with the United States, half of which is accounted for by Japan's automobile industry?

Economists have noted the emergence of an "asset-deprived, new poor" class, again pointing to the polarization between those with assets and those without. A heavy housing loan burden, not saturation, causes less consumer spending (accounting for 60 percent of GNP), which, in turn, has caused a slowdown in the consumer goods industry as well as lessened domestic demand.²¹ Noting the growing discontent among salaried workers, plus political demands and American pressure, Nakasone has promised to correct Japan's unfair tax system and to initiate a program of large-scale income and corporate tax cuts.

Other reasons for Japan's failure to break this cycle are the administration's reactive rather than initiative attitude and the shallowness of policymaking debate. Essen-

tially the tax cuts and other initiatives have been cranked up as emergency measures to ease United States and West European pressure on Japan to expand domestic spending and to lessen the frustration of Japanese salaried workers.

Since Japan's problems are structural, the prospect for any qualitative change in the near future is slim, unless Nakasone's successor tries to dig deeper into the underlying domestic and international problems. The current two-year tenure of the LDP presidency may affect the Prime Minister's ability to concentrate on policy from a long-term perspective.

Nakasone's tenure as LDP president expires in October, 1986, but he seems to be interested in extending his term by revising party bylaws. If Nakasone remains popular and if the LDP wins in the next general election (which observers predict after the Tokyo summit meeting scheduled for May, possibly June, 1986, at the time as the upper House elections), it may be difficult to replace him.

The so-called New Leaders are all over 60 years old and are essentially the products of the Tanaka era. Only PARC chairman Miyazawa, known for his inexperience in factional politics, has developed a long-term program, the asset-doubling plan. According to recent polls, Foreign Minister Abe leads in popularity, especially among women, followed by Finance Minister Takeshita, who leads in male support. Miyazawa shares third place with LDP vice president Nikaido.

Many analysts consider Abe and Takeshita as Nakasone's most likely successors. However, Miyazawa was reported to have made a good impression in Washington when he met Secretary of State George Shultz and Vice President George Bush in late July, 1985, not only because of his fluency in English but because of his conversational skill. Nakasone has stated semipublicly that Abe and Takeshita would be his successors, evidently to control the Fukuda faction (to which Abe belongs) and Takeshita's Soseikai followers (estimated to be 50 to 60) in the Tanaka faction, and to extend his own tenure. However, some analysts predict significant factional realignment in view of Komoto Toshio's August, 1985, resignation from his Cabinet post, and the probable dissolution of his faction. Although Miyazawa has not been in favor with either Tanaka or Nakasone and is not very popular among the LDP rank and file, some regard him as a dark horse.²²

Whoever succeeds Nakasone may well also face a deadlock. The inertia of the existing system is far too strong for the kind of leader now on the waiting list. However, factional realignment may restore some balance within the LDP. More important, reapportionment may restore the political interest of the urban voters. Then opposition parties might increase the number of their Diet seats and improve their policymaking ability. In that event, there might be stronger motivation to foster a leadership able and willing to break the deadlock and change the course of Japan's politics and its economy. ■

²¹A heavy housing loan burden is caused in the last analysis by astronomical land prices. Why are land prices so high compared with other industrialized countries? High prices are due at least in part to a bipartisan (from LDP to JCP) tendency to avoid conflict with the Farmer's Cooperatives (Nokyo), the largest group of landowners in control of the largest bloc of votes, a group that has consistently been successful in blocking programs aimed at stabilizing land prices or increasing land supply. See Masako Ozawa, "Kaiso shohi-jidai," (Japan's new class society), *Cho-gin chosa geppo* (Monthly Review, Long-term Credit Bank of Japan), no. 222 (1984); Economic Planning Agency, *Keizai Hakusho* (White paper on the economy), 1984. *JTW*, August 18, 1984.

²²Takao Iwami, "Miyazawa Dark Horse ron" (Miyazawa as a dark horse), *Chuo Koron*, vol. 100, no. 10 (October, 1985), p. 257.

THE MONTH IN REVIEW

A Current History chronology covering the most important events of October, 1985, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Arms Control

(See *U.S.S.R.*; *U.S.*, *Foreign Policy*)

Commonwealth Nations

Oct. 22—The leaders of 46 Commonwealth countries end their weeklong meeting; on October 20 the group voted to impose limited economic sanctions against South Africa.

Contadora Group

Oct. 19—Meeting in Panama, the Contadora nations (Colombia, Venezuela, Mexico and Panama) discuss a new draft treaty for peace in Central America.

General Agreement on Tariffs and Trade (GATT)

Oct. 2—At a U.S. request, GATT votes to begin a new round of talks on the liberalization of world trade.

International Monetary Fund (IMF)

(See also *Nigeria*)

Oct. 8—Meeting in Seoul, Korea, members of the IMF and the World Bank agree to create a special \$2.7-billion fund to promote economic growth in poor nations.

International Terrorism

(See also *UN*; *U.S.*, *Foreign Policy*)

Oct. 7—Four members of the Palestine Liberation Front hijack the Italian cruise ship *Achille Lauro* with more than 400 people on board; the hijackers demand the release of 50 Palestinians held prisoner in Israel.

Oct. 9—The 4 hijackers surrender to Egyptian authorities in Port Said. U.S. authorities report that an American passenger, Leon Klinghoffer, was killed by the terrorists.

Oct. 10—An Egyptian airliner carrying the 4 hijackers and the head of the Palestine Liberation Front, Mohammed Abbas, to Tunisia is intercepted by U.S. Navy jets from the aircraft carrier *Saratoga*; the plane is forced to land in Italy. Italian authorities take the 4 hijackers into custody.

Oct. 11—An Italian public prosecutor charges the 4 hijackers with murder and kidnapping; Italian authorities refuse the U.S. request that Abbas also be charged in connection with the hijacking.

Oct. 14—Egyptian President Hosni Mubarak demands a public apology from President Reagan for the U.S. interception of the plane carrying the hijackers.

Abbas, who was allowed to leave Italy for Yugoslavia, is reported to have left Yugoslavia for South Yemen.

Oct. 20—President Mubarak says Tunisian officials colluded with the U.S. to intercept the hijackers' plane.

Oct. 21—An unidentified Palestine Liberation Organization (PLO) official tells reporters in Tunis that PLO Chairman Yasir Arafat was not aware of the hijacking plan, which he says was ordered by Abbas. Israeli officials agree that Arafat was not involved.

Oct. 23—One of the hijackers tells Italian investigators that Abbas was the military leader of the hijacking.

Iran-Iraq War

Oct. 5—Iraq claims that its planes bombed Iran's Kharg

Island oil terminal for the 3d time in 3 days; this is the 21st Iraqi raid on Kharg since August 15.

North Atlantic Treaty Organization (NATO)

(See also *U.S.*, *Foreign Policy*)

Oct. 16—In China, U.S. Vice President George Bush announces that NATO's Coordinating Committee on Export Controls (COCOM) has agreed to expand the list of high technology equipment that can be sold to China; no military-related hardware will be allowed.

Oct. 30—At the end of a 2-day meeting of NATO's nuclear planning group, British Defense Secretary Michael Heseltine says that he and U.S. Defense Secretary Caspar Weinberger have agreed on Britain's role in research on the U.S. space defense initiative.

Organization of Petroleum Exporting Countries (OPEC)

Oct. 4—A 2-day meeting of oil ministers ends in Vienna; Saudi Arabian Oil Minister Sheik Ahmed Zaki says Saudi Arabia will increase its oil output "as the market demands and not above our quota."

United Nations (UN)

(See also *U.S.*, *Foreign Policy*)

Oct. 4—The Security Council votes 14 to 0 to condemn Israel's raid on the Palestine Liberation Organization (PLO) headquarters in Tunis on October 1; the U.S. abstains.

Oct. 7—The Security Council votes unanimously to condemn South Africa for its air raid into Angola last week; the Angolan government says at least 65 Angolans were killed in the attack.

Poul Hartling, the UN High Commissioner for Refugees, says that the refugee agency needs \$74 million to cover a budget shortfall.

Oct. 8—At a meeting of the World Bank in Seoul, Korea, Bank president A.W. Clausen announces that he is resigning from his post.

Oct. 9—The Security Council unanimously condemns the hijacking of the Italian cruise ship *Achille Lauro* by 4 Palestinians.

Oct. 16—Voting 80 to 41, with 20 abstentions, the General Assembly rejects an Arab-sponsored attempt to expel Israel from the UN.

Oct. 21—Israeli Prime Minister Shimon Peres tells the General Assembly that he wants the "state of war" between Israel and Jordan to end; he says he would welcome a Middle East peace conference with Jordan's King Hussein or a Jordanian-Palestinian delegation.

Oct. 24—In a speech before the General Assembly, U.S. President Ronald Reagan says that relations between the U.S. and the Soviet Union can have a "fresh start" if the Soviet Union will work with the U.S. to resolve conflicts in Afghanistan, Angola, Cambodia, and Ethiopia.

Warsaw Pact

Oct. 23—Soviet General Secretary Mikhail Gorbachev and the other Warsaw Pact leaders end a 2-day summit meeting in Sofia, Bulgaria.

ANGOLA

(See also *Intl, UN*)

Oct. 7—Jonas Savimbi, the head of the South African-backed National Union for the Total Independence of Angola (UNITA), asks the U.S. to aid his guerrilla movement.

ARGENTINA

Oct. 22—President Raúl Alfonsín orders the arrest of 12 alleged members of right-wing groups that have carried out a series of bombings recently to protest the ongoing trial of 9 military officers.

Oct. 25—Alfonsín imposes a 60-day state of siege after a judge rules that the 12 men arrested October 22 cannot be held except under a state of siege; the government says civil liberties will not be abridged during the emergency.

AUSTRALIA

Oct. 1—Foreign Minister William Hayden condemns France's refusal to halt nuclear testing in the South Pacific; he says France insists on "provoking dispute through its testing policy."

BELGIUM

Oct. 16—King Baudouin asks Prime Minister Wilfried Martens to form a new government; Martens's center-right coalition won the October 13 general elections.

BOLIVIA

Oct. 3—Leaders representing 27,000 gold and tin miners agree to end the union's 4-week strike after the government says it will release 97 detained union members.

CHINA

(See also *Intl, NATO*)

Oct. 15—U.S. Vice President George Bush ends a 3-day visit; he says relations between the U.S. and China are "strong."

Oct. 22—The State Statistical Bureau reports that retail prices rose 7.7 percent in the 1st 8 months of 1985 and that wages are growing at an even faster pace.

CUBA

(See *U.S., Foreign Policy*)

CZECHOSLOVAKIA

(See *U.S., Foreign Policy*)

ECUADOR

Oct. 11—Ecuador breaks off diplomatic relations with Nicaragua because of Nicaragua's "gross, inadmissible attacks" on Ecuador.

EGYPT

(See also *Intl, Intl Terrorism*)

Oct. 1—President Hosni Mubarak joins with King Hussein of Jordan to condemn Israel's attack on PLO headquarters in Tunis today. The foreign minister announces that Egypt is suspending talks with Israel on the disputed Taba beach-front.

Oct. 5—An Egyptian policeman kills 8 Israeli tourists in the Sinai Peninsula; the Egyptian ambassador to Israel says that the man "went beserk."

Oct. 19—Students at Ain Shams University in Cairo riot during a protest against the U.S. interception of an Egyptian airliner carrying the 4 hijackers of the *Achille Lauro*.

EL SALVADOR

Oct. 10—A guerrilla attack on a military training school at La

Unión leaves 40 soldiers and 10 guerrillas dead; 5 U.S. military advisers at the base escape the attack.

Oct. 24—Guerrillas release the daughter of President José Napoleón Duarte after the government releases 22 political prisoners; the guerrillas also free 23 mayors of small towns.

Oct. 26—Government officials report that the guerrillas have pledged that they will not kidnap relatives of political or military leaders; the pledge was part of Duarte's daughter's release.

Oct. 31—President Duarte arrives in Washington, D.C.; he says Nicaragua is providing a haven for Salvadoran terrorists.

ETHIOPIA

(See *Somalia*)

FRANCE

(See also *Australia; Israel; U.S.S.R.*)

Oct. 4—At a news conference with visiting Soviet General Secretary Mikhail Gorbachev, President François Mitterrand says he will not negotiate a separate arms control pact with the Soviet Union until a U.S.-Soviet pact has been negotiated.

Oct. 24—French commandos seize a sailboat and 8 members of the Greenpeace environmental group after their boat sails near the area of a French nuclear test in the South Pacific.

New Caledonia

Oct. 26—Loyalists and separatists clash in Nouméa; 20 people are hurt.

GERMANY, WEST

Oct. 1—Rioting continues for a 4th night in several cities after an anti-Nazi demonstrator was killed by police; at least 350 people have been arrested.

Oct. 27—The Green party in Hesse state votes to join a governing coalition with the Social Democratic party.

HONDURAS

Oct. 10—In Tegucigalpa, the military seizes a 10-ton plane-load of "humanitarian" supplies sent by the U.S. to the Nicaraguan contras.

INDIA

(See also *Pakistan*)

Oct. 10—Foreign Secretary Romesh Bhandari announces that a cease-fire has been negotiated between Tamil separatist guerrillas and the Sri Lanka government; India has been mediating the conflict.

Oct. 19—Investigators say that they now have the 1st evidence that a bomb may have caused the crash of an Air India jet on June 23 that killed all 329 people on board.

Oct. 23—In New York, Prime Minister Rajiv Gandhi meets with Pakistani President Mohammed Zia ul-Haq; the two leaders agree to begin talks on improving security along the Indian-Pakistani border.

IRAN

(See also *Intl, Iran-Iraq War*)

Oct. 27—Prime Minister Mir Hussein Moussavi introduces his Cabinet to Parliament at the start of his second term.

IRAQ

(See *Intl, Iran-Iraq War*)

ISRAEL

(See also *Intl, UN; Egypt; Jordan; Tunisia; U.S.S.R.*)

Oct. 17—Government officials report that Poland will restore

limited diplomatic ties with Israel after a break of 18 years.

- Oct. 25—In Paris, Prime Minister Shimon Peres says that France has offered to fly Jews from the Soviet Union to Israel if the Soviet Union would allow France to do so.
 Oct. 27—The Israeli military reports that it bombed 2 Palestinian guerrilla bases in the Bekaa Valley of Lebanon today.
 Oct. 28—Peres wins a vote of confidence from the Knesset for his Jordanian peace proposal.
 Oct. 31—Peres denies allegations made by the right-wing Tehiya party that he has negotiated secretly with Jordan's King Hussein on sharing control of the Israeli-occupied West Bank.

ITALY

(See also *Intl, Intl Terrorism; U.S., Foreign Policy*)

- Oct. 17—Prime Minister Bettino Craxi resigns after Defense Minister Giovanni Spadolini withdraws his support from Craxi's coalition government to protest the government's release of Mohammed Abbas, who is implicated in the *Achille Lauro* hijacking.
 Oct. 21—President Francesco Cossiga calls on Craxi to form a new government.
 Oct. 30—Craxi announces that his 5-party coalition government has been reconstituted with the same members; President Cossiga will reject the October 17 resignation of the government.

IVORY COAST

- Oct. 12—The National Assembly votes to abolish the post of Vice President; this allows President Félix Houphouët-Boigny to run alone in this month's reelection campaign.

JAPAN

- Oct. 9—Prime Minister Yasuhiro Nakasone tells members of his ruling Liberal Democratic party that he will not visit the Yasukuni Shrine, which commemorates the 2.5 million Japanese soldiers who died during World War II.
 Oct. 15—The government announces that it is adopting an economic package that should increase domestic economic growth and increase imports by \$2 billion in 1986.
 Oct. 20—Protesters wound at least 95 policemen in a violent demonstration against the expansion of Tokyo's Narita Airport; at least 200 demonstrators are wounded.

JORDAN

(See also *Intl, UN; Egypt; U.S., Foreign Policy, Legislation*)

- Oct. 23—In an interview with *The New York Times*, King Hussein says that he cannot terminate the state of war between Israel and Jordan; Israeli Prime Minister Peres called for an end to the state of war on October 21.
 Oct. 29—PLO Chairman Arafat says there will be no peace in the Middle East if the PLO is left out of negotiations; Arafat is in Jordan for talks with Hussein on their joint negotiations with Israel.
 Oct. 30—Hani al-Hassan, an aide to Arafat, says that the PLO has promised Hussein that it will not "carry out any act that could hurt" the Jordanian-Palestinian peace initiative.

KOREA, NORTH

(See *Korea, South*)

KOREA, SOUTH

- Oct. 2—Twenty college students who took over the U.S. Information Agency building in Seoul in May, 1984, to protest the military government's policies are given sentences ranging from 3 years to 7 years in prison.

Oct. 20—The government says that a North Korean spy ship was sunk today by South Korean forces after it was sighted off the coast of Pusan.

Oct. 29—Twenty-six former or present university students are charged under the National Security Law with inciting anti-government protests; conviction carries the death penalty.

LEBANON

(See also *Israel; U.S.S.R.*)

- Oct. 1—Two Islamic groups claim responsibility for today's kidnapping of 4 Soviet diplomats in Beirut.
 Oct. 2—One of the Soviet diplomats is found shot to death in Beirut; the Islamic Liberation Organization claims responsibility.
 Oct. 4—The Soviet Union evacuates 60 staff members and families from its Beirut embassy.
 Oct. 12—Islamic Holy War claims it has killed William Buckley, 1 of 6 Americans being held hostage in Lebanon; the U.S. says it cannot confirm whether Buckley was killed.
 Oct. 15—In Damascus, the 3 major Christian, Druse and Shiite Lebanese militias agree to a Syrian-sponsored plan to end fighting among them.
 Oct. 30—The Soviet embassy confirms that the 3 kidnapped Soviet diplomats were released today.

LIBERIA

- Oct. 29—The election commission announces that General Samuel K. Doe won the presidency in the October 15 elections; opposition parties claim that there was widespread voting fraud.

LIBYA

- Oct. 12—Diplomats in Syria report that Libya has expelled between 10,000 and 20,000 Syrian workers in the last 10 weeks.

MEXICO

- Oct. 9—Thirteen international banks reach an agreement with Mexican officials to postpone for 6 months nearly \$1 billion in loan repayments from Mexico.

MOROCCO

- Oct. 23—King Hassan II declares a unilateral cease-fire in the 10-year war with Polisario Front guerrillas in the Western Sahara.

NICARAGUA

(See also *Ecuador; El Salvador; Honduras; U.S., Foreign Policy*)

- Oct. 15—The government suspends for 1 year many civil liberties, including habeas corpus, freedom of speech, assembly and travel, and the right to strike, because the U.S.-backed contras have created "an extraordinary situation."
 Oct. 17—Interior Minister Tomás Borge announces that 5 people have been arrested for planning to plant bombs in Managua.
 Oct. 18—At least 129 people are detained on charges of spying for the contras and promoting "anti-government propaganda."
 Oct. 20—President Daniel Ortega Saavedra says that the contras will be defeated "in the next few months."
 Oct. 25—After a 3-day meeting between Nicaraguan and COMECON (Council for Mutual and Economic Assistance) leaders, Minister of External Cooperation Henry Ruiz says that Soviet bloc aid to Nicaragua is increasing.
 Oct. 29—Six opposition parties, including the Communist and Socialist parties, issue a statement demanding the restoration of civil liberties.

NIGERIA

Oct. 7—Major General Ibrahim Babangida, the head of the military government, says that although Nigeria needs financial help, it will not accept a \$2.4-billion loan from the IMF.

PAKISTAN

(See also *India*)

Oct. 20—President Mohammed Zia ul-Haq says that Pakistan would sign a treaty banning the spread of nuclear weapons and would open its nuclear reactors to international inspection if India would also sign such a treaty.

PHILIPPINES

(See also *U.S., Foreign Policy*)

Oct. 16—President Ferdinand Marcos meets with U.S. President Reagan's personal envoy, Senator Paul Laxalt (R., Nevada); Marcos tells Laxalt that the Communist New People's Army (NPA) insurgency is under control. Laxalt was sent by the President to assess the Marcos government.

Oct. 19—Marcos denies U.S. reports that he rebuffed Laxalt's plea for dramatic changes in Marcos's policies.

Oct. 21—One protester is killed and 27 are wounded when police open fire on a rock-throwing crowd near the U.S. embassy in Manila.

Oct. 25—Lieutenant General Fidel V. Ramos says that the NPA now has a fighting force of 12,500 men; Marcos said on October 18 that the NPA has only 9,000 men.

Oct. 31—In an interview with *The New York Times*, Marcos says that his government can defeat the NPA within 1 year "if we get the proper backing" from the U.S.

POLAND

(See also *Israel*)

Oct. 13—Government spokesman Jerzy Urban says that more than two-thirds of eligible voters voted in today's parliamentary elections, but Solidarity says its call for an elections boycott was effective.

Oct. 19—Thousands of people gather to mark the 1st anniversary of the death of Father Jerzy Popieluszko, a pro-Solidarity priest who was killed by security police.

PORTUGAL

Oct. 6—The Social Democratic party of Anibal Cavaco Silva wins today's parliamentary elections, defeating Prime Minister Mario Soares's Socialist party.

ROMANIA

Oct. 17—President Nicolae Ceausescu orders the military to take over the nation's power plants after he declares a state of emergency because of power shortages.

SAUDI ARABIA

(See *Intl, OPEC*)

SOMALIA

Oct. 21—The Defense Ministry says Somali troops repulsed 2 Ethiopian attacks along the border yesterday.

SOUTH AFRICA

(See also *Intl, Commonwealth, UN*)

Oct. 12—Four legislators belonging to the opposition Progressive Federal party meet with representatives of the outlawed African National Congress (ANC) in Zambia.

Oct. 18—Benjamin Moloise, a member of the ANC, is hanged after the government rejects international appeals for clemency; the government says Moloise took part in the 1983 killing of a white security officer.

Oct. 24—President P.W. Botha announces that he is lifting the state of emergency in 6 districts; 30 districts remain under the decree, which was issued 3 months ago to stop violence in black townships.

Oct. 25—Botha imposes a state of emergency on Cape Town and its neighboring areas because of violence.

Oct. 29—Francis Diamini, a black Zulu legislator, is killed by blacks opposed to Zulu acceptance of South Africa's "homelands" policy.

Oct. 30—In 1 of 5 parliamentary by-elections held today, the right-wing white supremacist Herstigte Nasionale party wins; the ruling National party candidates win the other elections.

SRI LANKA

(See *India*)

SUDAN

Oct. 26—Former Vice President Omar el-Tayeb and four members of the State Security Council enter not guilty pleas to charges that they helped smuggle Ethiopian Jews to Israel in 1984.

SYRIA

(See *Lebanon; Libya*)

TANZANIA

Oct. 27—In unopposed elections today, Ali Hassan Mwinyi is elected to succeed retiring President Julius K. Nyerere.

TUNISIA

(See also *Intl, Intl Terrorism, UN; U.S., Foreign Policy*)

Oct. 1—Israeli jets bomb the headquarters of the PLO in Tunis, killing at least 50 Palestinians and 15 Tunisians; Israel says the attack was a retaliation for the PLO killing of 3 Israelis in Cyprus 6 days ago.

Foreign Minister Beji Caid Essebsi calls the Israeli raid a case of "state terrorism."

Oct. 31—In Tunis, police raid and close the headquarters of the General Union of Tunisian Labor; the union was involved in a wage dispute with the government.

UGANDA

Oct. 28—The ruling military council offers the guerrilla National Resistance Army a power-sharing position on the military council.

U.S.S.R.

(See also *Intl, UN, Warsaw Pact; France; Israel; Lebanon; Nicaragua; U.S., Foreign Policy*)

Oct. 2—Arriving in Paris, General Secretary Mikhail Gorbachev criticizes the U.S. Star Wars (Strategic Defense Initiative, SDI) proposal; he says the Soviet Union is ready "for a return to détente, preventing an arms race in space and ceasing it on earth."

The government says it holds Israel responsible for the abduction of 4 Soviet diplomats in Beirut and the death of 1 of them; an Islamic fundamentalist group has taken responsibility for the abduction and killing.

Oct. 3—Gorbachev presents an arms control proposal to the U.S. that calls for a 50 percent reduction in strategic nuclear arms and a ban on space weapons. He offers to hold separate arms control talks with Britain and France.

Oct. 12—In an interview, Chief of the General Staff Marshal Sergei F. Akhromeyev says that the Soviet Union would make "drastic reductions" in its land-based nuclear missiles if the U.S. would limit its Strategic Defense Initiative research.

- Oct. 14—Nikolai Baibakov is replaced as head of the state planning committee; Nikolai Talyzin is named to succeed him.
- Oct. 25—The Communist party publishes drafts of the new party program that calls for the doubling of production potential by the year 2000 and an 150 percent increase in labor productivity.
- Oct. 28—A Soviet journalist reports that Yelena Bonner, the wife of Nobel Peace Prize winner Andrei Sakharov, will be given an exit visa to go abroad for medical treatment.

UNITED KINGDOM

Great Britain

(See also *Intl, NATO*)

- Oct. 6—Rioters armed with shotguns, rocks and knives kill a policeman and wound 54 others in a clash in north London; the riot broke out on October 5 after a black woman died during the search of her home by police.
- Oct. 11—At the close of the Conservative party conference in Blackpool, Prime Minister Margaret Thatcher reaffirms her government's conservative economic policies and says that there is no need for special measures to combat unemployment.
- Oct. 26—More than 100,000 antinuclear protesters march in London.
- Oct. 28—The last of 7 British soldiers accused of espionage is acquitted of all charges; the other 6 soldiers were also acquitted.

Bermuda

- Oct. 29—Prime Minister John Swan's conservative United Bermuda party wins 31 of 40 parliamentary seats in today's elections.

UNITED STATES

Administration

(See also *Supreme Court*)

- Oct. 1—The Occupational Safety and Health Administration proposes to fine the Union Carbide Corporation some \$32,100 because of an August 11 toxic gas leak from its West Virginia plant.
- President Ronald Reagan announces that Secretary of Health and Human Services Margaret Heckler will leave her post to become ambassador to Ireland.
- Oct. 2—An incomplete listing by the Environmental Protection Agency says that in the last 5 years there have been at least 6,928 environmental accidents in the U.S., which have killed more than 135 people.
- Oct. 6—The Justice Department reports that according to its estimates, there were some 35.5 million crimes in the U.S. in 1984; this is the lowest figure in 12 years.
- Oct. 9—Because Congress has not yet raised the debt ceiling, the Treasury Department borrows some \$5 billion in 78-day Treasury bills in a novel auction.
- Oct. 11—The National Center for Health Statistics reports that infant mortality in the U.S. fell to a record low of 10.6 deaths per 1,000 live births in 1984 and that the divorce rate declined to 4.9 per 1,000 people.
- President Reagan announces that a minor skin cancer was removed from his nose on October 10.
- Oct. 17—In U.S. district court in Baltimore, Samuel L. Morison, a former Navy intelligence analyst, is found guilty of espionage charges for giving classified documents to the British reference volume, *Janes Fighting Ships*.
- Oct. 21—Speaking to a group of U.S. attorneys, President Reagan says that he will use his power to make appointments to federal judiciary positions to discourage "judicial activism."

- Oct. 28—In a plea bargain in U.S. district court in Baltimore, John A. Walker Jr. pleads guilty to charges of spying for the Soviet Union and enlisting his son Michael, his brother, and a friend in his espionage ring; under the plea bargain, Michael Walker will receive a reduced sentence.

Economy

- Oct. 4—The Labor Department reports that the nation's unemployment rate rose to 7 percent in September.
- Oct. 11—The Labor Department reports that its producer price index declined 0.6 percent in September.
- Oct. 17—The Commerce Department reports that the nation's gross national product (GNP) expanded at an annual rate of 3.3 percent in the 3d quarter of 1985.
- Oct. 23—The Labor Department reports that its consumer price index rose 0.2 percent in September.
- Oct. 30—The New York Stock Exchange's Dow Jones industrial average closes at a new record high of 1,375.57.
- Oct. 31—The Commerce Department reports that its index of leading economic indicators rose 0.1 percent in September.
- The Commerce Department reports a record U.S. trade deficit, \$15.5 billion, in September.

Foreign Policy

(See also *Intl, GATT, Intl Terrorism, NATO, UN; Angola; China; Egypt; El Salvador; France; Honduras; Lebanon; Philippines; U.S.S.R.; Vietnam*)

- Oct. 1—The Defense Department says that a U.S. helicopter on a routine mission along the southeastern border of West Germany and Czechoslovakia was fired on by a Czechoslovakian fighter "without warning."
- White House spokesman Larry Speakes calls the Israeli attack on the Tunisian headquarters of the Palestine Liberation Organization (PLO) "a legitimate response" to terrorism.
- Oct. 2—President Reagan announces that Commerce Secretary Malcolm Baldrige will head a "strike force" to discover the unfair commercial practices of foreign competitors and devise methods to overcome them.
- Oct. 4—The White House releases a 27-page booklet, "Soviet Strategic Defense Programs," which details public knowledge of Soviet efforts to develop an antimissile defense program.
- Oct. 5—President Reagan expresses regret that Tunisia was "swept up" in Middle East violence with the Israeli raid on PLO headquarters in Tunisia.
- Oct. 7—The State Department announces that the U.S. will only take part in nonpolitical cases that come before the International Court of Justice (World Court).
- Oct. 8—President Reagan signs a proclamation that imposes severe restrictions on the entry of Cuban officials into the U.S.
- Oct. 11—The State Department reports that Nicaraguan contras have received the first shipment of nonmilitary aid financed by the \$27 million approved by Congress in July.
- Oct. 12—After the U.S. forced the hijackers of the cruise ship *Achille Lauro* to land in Italy, President Reagan warns terrorists everywhere, "You can run but you can't hide."
- Oct. 15—Addressing the North Atlantic Treaty Organization (NATO) foreign ministers meeting in Brussels, Secretary of State George Shultz assures them that within specific limits President Reagan will adhere to the 1972 Antiballistic Missile Treaty with the Soviet Union.
- Oct. 16—Commenting on the Nicaraguan government's suspension of civil liberties, White House spokesman Speakes says that they "have trampled on civil liberties as very few countries have done in the past."
- Oct. 18—President Reagan sends Deputy Secretary of State

John Whitehead to Italy, Tunisia, and Egypt to ease those countries' anger at the U.S., which forced the plane carrying the hijackers of the *Achille Lauro* to land in Italy.

Oct. 19—President Reagan sends a conciliatory letter to Italian Prime Minister Bettino Craxi.

Oct. 22—Defense Secretary Caspar Weinberger accuses the Soviet Union of violating a 1979 treaty limiting offensive strategic weapons by deploying SS-25 missiles.

Senator Paul Laxalt (R., Nev.) reports to President Reagan on his Philippine trip and says that Philippine President Marcos will permit U.S. personnel to observe elections in 1986 and 1987 and will relax his control of the military.

Oct. 24—Assistant Secretary of State for Near Eastern and South Asian Affairs Richard Murphy visits Jordan in an effort to "sustain momentum" toward Middle East peace talks.

Oct. 28—The State Department reports a Soviet offer to halt construction of a radar system in Abalakova, near Krasnoyarsk in Central Siberia, if the U.S. agrees not to modernize radar systems in Britain and Greenland.

Oct. 30—State and Defense Department officials tell the Senate Foreign Relations Committee that they believe the Philippines is edging toward "civil war on a massive scale."

Oct. 31—President Reagan meets with 4 Soviet journalists for a 30-minute interview in the White House; the White House says the interview will be made public over the weekend.

Secretary of State Shultz reports confirmation by a Soviet official that Yelena G. Bonner, wife of Nobel Laureate Andrei D. Sakharov, "will be free to leave the Soviet Union" for medical treatment.

Labor and Industry

Oct. 27—Some 70,000 Chrysler Corporation workers end a 12-day strike, ratify a new contract and return to work; 87 percent of the workers approve the new contract.

Oct. 29—Charging the company with mismanagement, the Securities and Exchange Commission (SEC) orders the E.F. Hutton Group to pay some \$1 million to investors in 2 of its mutual funds; the company is also temporarily barred from opening new brokerage offices.

Legislation

Oct. 2—The House votes 322 to 107 to approve a \$104.9-billion appropriations bill for the Departments of Labor, Education and Health and Human Services.

Oct. 4—In a 90-2 vote, the Senate confirms James C. Miller 3d as director of the Office of Management and Budget.

Oct. 8—In a 282-141 vote, the House passes a \$141-billion farm support and food stamp support bill.

The Senate and House fail to increase the federal debt ceiling.

Oct. 9—Voting 75 to 24, the Senate approves a rider attached to a bill raising the U.S. debt ceiling to more than \$2 trillion; the rider requires Congress and the President to produce a balanced budget by 1991.

Oct. 11—The House votes 354 to 15 to instruct its conferees with the Senate to approve a higher debt ceiling "and specific and mandatory goals for achieving a balanced budget within the next six years."

Oct. 16—The Senate Armed Services Committee makes public a report that calls for the reorganization of the Defense Department and the elimination of the Joint Chiefs of Staff; it suggests that senior combat commanders should replace the Joint Chiefs.

Oct. 22—In a voice vote, the Senate confirms Charles Fried as Solicitor General.

Oct. 23—Voting 84 to 13, the Senate approves a \$9.9-billion transportation appropriations bill for 1986, including a sub-

sidy for Amtrak, the federally subsidized railroad.

Oct. 24—The House votes 228 to 199 to approve a package of spending cuts to reduce the budget deficit by \$60 billion over 3 years.

With only 1 dissenting vote, the Senate approves a bill prohibiting the sales of \$1.9 billion in arms (mostly jet fighters) to Jordan before March 1, 1986, unless Jordan begins "direct and meaningful peace negotiations" with Israel.

Oct. 30—The House votes 359 to 67 to approve the \$276-billion military appropriations bill; the House first voted 211 to 208 to eliminate funds for 12 additional MX missiles and then reversed its position, voting 214 to 210 to fund the additional missiles.

Oct. 31—Voting 245 to 174, the House approves a \$19.4-billion deficit-reduction bill, part of its efforts to cut the deficit by \$75 billion over 3 years.

Facing a deadlock on the measure increasing the federal debt ceiling, congressional negotiators temporarily end their efforts to agree on a compromise; the debt ceiling increase is a rider on the budget balancing bill.

Military

(See also *Legislation*)

Oct. 1—Admiral William Crowe Jr. is sworn in as chairman of the Joint Chiefs of Staff.

Oct. 26—The Defense Department issues guidelines for the testing of 2.1 million military personnel for AIDS (acquired immune deficiency syndrome); in the screening process, it will ask individuals for an acknowledgement of drug use and homosexual activity, promising that such information will not be used for "punitive action against an individual" although individuals found to have AIDS may be honorably discharged.

Science and Space

Oct. 7—The space shuttle *Atlantis* returns from a 4-day secret military mission.

Supreme Court

(See also *Administration*)

Oct. 7—The Supreme Court opens its new term.

Oct. 12—Associate Justice William Brennan calls the views of the Reagan administration as expounded by some administration officials "little more than arrogance cloaked as humility."

Oct. 25—Associate Justice John Paul Stevens offers a point-by-point rebuttal of the views of Attorney General Edwin Meese 3d on major constitutional issues, saying that in his speech of July 9 Meese expressed a "somewhat uncomplete" account of history.

In a speech made public today, Associate Justice William Rehnquist analyzes President Franklin Roosevelt's unsuccessful attempts to "pack" the Court in 1937 with justices sympathetic to his views.

VIETNAM

Oct. 10—A Foreign Ministry official says that Vietnam agrees in principle to allow U.S. search teams to look at crash sites for the bodies of U.S. soldiers missing in action.

WESTERN SAHARA

(See *Morocco*)

ZIMBABWE

Oct. 3—The ruling Zimbabwe African National Union and the opposition Zimbabwe African People's Union announce an agreement to merge the 2 parties.

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equipment in exchange for critical raw materials like oil and coal fits China's economic requirements.

Second, Japan has become China's largest supplier of capital and technology. Japan has provided sophisticated industrial hardware and technology for almost all of China's modernization programs (it has not provided any military hardware). Furthermore, the Japanese have provided massive financial assistance to China since 1979. In addition to \$8 billion in credits extended by a group of Japanese banks in 1979, the Japanese government has agreed to provide over \$8 billion in "soft" loans through loan agreements signed with China since 1979. Japanese economic aid has not only helped China's modernization programs, but has also strengthened Sino-Japanese economic cooperation.

Third, Japan's willingness to help China's modernization programs is not exclusively based on economics but has a political motivation as well. In addition to economic and humanitarian purposes, Japan's overall foreign aid program has broad political objectives, including considerations of national security and the fostering of an international environment favorable to Japan. Tokyo is apparently willing to extend loans to China partly because it believes that the loans will help stabilize China under the pragmatic Deng leadership.

Japan and China also share a common strategic interest in containing the Soviet threat, since the Soviet military buildup in Asia, including the deployment of SS-20 intermediate-range missiles targeted at Japan and China, is perceived by Tokyo and Beijing as a serious threat. In dealing with the Soviet Union, Japan wants support from China and from the United States. Japanese leaders believe that Japan must keep China on the side of the Western bloc, because an unfriendly China drifting toward the Soviet orbit would seriously undermine Japanese and Western bloc security interests.

Beijing has toned down its anti-Soviet rhetoric in recent months partly because of its desire to reduce Sino-Soviet tensions and partly because of American arms sales to Taiwan. Instead of the formation of a global united front against Soviet "hegemonism," Beijing may be seeking a more balanced relationship with Washington and Moscow. However, unless Sino-American relations revert to the pre-1972 level of hostility—which seems unlikely—they are not expected to affect Sino-Japanese relations drastically. Thus, in the late 1980's, Japan and China will maintain close relations. ■

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